

Doctoral Thesis

**Corporate Social Responsibility as an intangible asset in the  
Airline Industry in Central and Eastern Europe**

**Společenská odpovědnost firem jako nehmotné aktivum v  
odvětví letecké dopravy ve střední a východní Evropě**

Author	Ing. Roman Asatryan
Study programme	P 6208 Economics and Management
Supervisor	doc.PhDr. Olga Březinová, CSc.
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**“The best way to predict the future is to create it.”**

- Peter Drucker (1909-2005)

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Roman R. Asatryan  
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## **ABSTRACT**

The global demand for air transport is increasing inspite of some of the detrimental effects of airline operations on various aspects of society. There is a growing interest in socially responsible investments in and by various industries. Consequently, the implementation of Corporate Social Responsibility (CSR) programs that will ensure environmental and social progress as well as the reputation and performance of firms is significant, especially in the airline industry. Within the business model, addressing environmental and social concerns is no longer seen merely as a response to regulators and policy-makers. Rather it is a proactive financial decision. The dilemma faced by firms in the airline industry is how to engage in CSR in the most cost-effective and profitable ways. The main objective of this research is to analyse CSR as an Intangible Asset in the Airline Industry in Central and Eastern Europe. This research is relevant as it will identify the suitable and effective approaches for managing CSR activities of modern airline businesses. The research provides essential factors for the implementation of CSR so as to meet financial, strategic, operational, ecological, and social goals of a firm.

## **ABSTRAKT**

Celosvětová poptávka po letecké dopravě se zvyšuje navzdory nežádoucím dopadům provozu leteckých společností. V různých průmyslových odvětvích existuje stále rostoucí zájem o sociálně odpovědné investice. Následkem toho je implementace programů společenské odpovědnosti firem (CSR), které zajistí environmentální a sociální pokrok jako i dobrou pověst a výkonnost firem, jež jsou zejména v leteckém průmyslu velmi významné. V rámci obchodního modelu už není na řešení ekologických a sociálních otázek pohlíženo pouze jako na reakci regulátoru a tvůrce politiky, ale spíše jako na proaktivní finanční rozhodnutí. Podniky v odvětví letecké dopravy řeší dilema, jak se do CSR zapojit co možná nejefektivnějším a nejvýnosnějším způsobem z hlediska nákladů. Hlavním cílem tohoto výzkumu je analyzovat CSR jako nehmotné aktivum v odvětví letecké dopravy ve střední a východní Evropě. Tento výzkum je důležitý, protože určí vhodný a efektivní manažerský přístup k řízení CSR aktivit u moderních leteckých společností. Výzkum poskytne základní faktory pro implementaci společenské odpovědnosti firem tak, aby splňovaly finanční, strategické, provozní, ekologické a sociální cíle firmy.

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## **EXTENDED ABSTRACT**

Airline transport has increasingly become global, technologically advanced and dynamic growth industry. Airline operations are associated with numerous social and economic benefits. It is essential for firms in the airline industry to stay committed to meeting of their customers' growing demand in a sustainable manner, maintaining an optimal balance between financial performance, corporate reputation, social development and environmental responsibility. The dilemma faced by firms in the airline industry is how to engage in CSR in the most cost effective and profitable way. For airline firms, the crux of the matter is how best to streamline their CSR initiatives to make them efficient without much impact on their bottom-line, while at the same time getting the commitment of managers, employees and other stakeholders to build their corporate reputation and increase their competitiveness. The dynamic airline industry requires innovative managers who are environmentally responsible to drive the CSR agenda for social progress while at the same time enhancing the corporate reputation and financial performance of the firm.

The main objective of this research is to analyse CSR as an intangible asset in the Airline Industry in Central and Eastern Europe. The sub-objectives are (a) to examine the perception of customers on the contribution of CSR practices to the profits of airline firms, (b) to analyse the effect of CSR ratings of airline firms on customer's decision to patronize airlines, (c) to examine the perception on whether airline firms have a social responsibility aside their profit interest, (d) to investigate employees (internal stakeholders) perceptions of their company's CSR performance and how it fosters their attitude in airline firms and (e) to examine the relationship between CSR and financial performance of airline firms.

A multiple case study approach is used in this research. A multiple case study is an ideal methodology when a holistic, in-depth investigation is needed. The multiple case study is appropriate for the dissertation topic as it involves a comparison of more than one airline firm while at the same time seeking to understand the CSR practices which are usually not privy to ordinary people, except the internal stakeholders of airline firms. The regression analysis was used to investigate the relationships between CSR initiatives and the financial performance, corporate reputation as well as stakeholder perception of the firm.

The study concludes that CSR does have an impact on the reputation of airline firms and CSR plays a vital role as an intangible assets in the airline industry. CSR has a positive relationship with the financial performance of airline firms. CSR tends to have an effect on the Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS). Also, there are statistically significant differences in the perceptions of customers on the contributions of CSR on the profits of airline firms. The implications of these are that airline firms would engage in CSR activities not only when internal and external stakeholders reward or pressure them to engage in such behaviour, but also if they can match their cost with the benefits that accrue to them.

## ROZŠÍŘENÝ ABSTRAKT

Letecká doprava je stále více globálním, technologicky vyspělým a dynamicky se rozvíjejícím odvětvím. Provozní činnost letecké dopravy je spojena s řadou sociálních a ekonomických přínosů. Pro podniky v odvětví letecké dopravy je nezbytné, aby splnily rostoucí poptávku svých zákazníků udržitelným způsobem a zachovaly optimální rovnováhu mezi finanční výkonností, dobrou pověstí firmy, sociálním rozvojem a odpovědností vůči životnímu prostředí. Podniky v odvětví letecké dopravy řeší dilema, jak se do CSR zapojit co možná nejefektivnějším a nejvýnosnějším způsobem z hlediska nákladů. Hlavním úkolem leteckých společností je maximálně využít CSR a rovněž přístup manažerů, zaměstnanců a ostatních zainteresovaných stran za účelem vybudování dobré pověsti a zvýšení jejich konkurenceschopnosti. Letecký průmysl vyžaduje inovativní manažery, kteří jsou šetrní k životnímu prostředí, usilují o dosažení sociálního pokroku prostřednictvím CSR agendy a zároveň posilují dobrou pověst a finanční výkonnost firmy.

Hlavním cílem tohoto výzkumu je analyzovat CSR jako nehmotné aktivum v odvětví letecké dopravy ve střední a východní Evropě. Dílčí cíle jsou: (a) zkoumat vnímání přínosu CSR praktik zákazníky, (b) analyzovat vliv CSR na finanční výkonnost leteckých společností, (c) zkoumat postoj leteckých společností a zda tyto mají společenskou odpovědnost a to nejen z důvodu dosažení zisku, (d) prošetřit vnímání CSR výkonnosti podniku svými zaměstnanci (interními zainteresovanými stranami) a způsob podpory jejich postoje vůči leteckým společnostem a (e) zkoumat vztah mezi CSR a finanční výkonností leteckých společností.

V tomto výzkumu bude použita vícečetná případová studie. Vícečetná případová studie je ideální metoda, která je aplikována, když je potřeba celostního (holistického), hloubkového šetření. Použití vícečetné případové studie je vhodné pro téma disertační práce, vzhledem k tomu, že bude zahrnovat srovnání více než pouze jedné letecké firmy. Zároveň je snahou aplikace této metody přiblížit CSR praktiky, do kterých obyčejní lidé obvykle nejsou zasvěceni, s výjimkou interních pracovníků leteckých firem. Regresní analýza bude sloužit ke sledování vztahů mezi iniciativami v oblasti CSR a finanční výkonností, firemní pověstí i vnímáním firmy zainteresovanými stranami.

Závěr studie poukazuje na skutečnost, že CSR má vliv na pověst leteckých společností a hraje zásadní roli jako nehmotné aktivum v leteckém průmyslu. CSR má pozitivní vliv na finanční výkonnost leteckých společností samotných a zároveň ovlivňuje rentabilitu aktiv (ROA), rentabilitu vlastního kapitálu (ROE) a rentabilitu tržeb (ROS). Statisticky byly zjištěny u zákazníků značné rozdíly v pojetí CSR a jejího vlivu na tržby leteckých společností. Význam tohoto výzkumu spočívá v tom, aby se letecké firmy zapojily do CSR aktivit a přijaly takové chování nejen na základě zisku či nátlaku vnitřních a vnějších zainteresovaných stran, ale aby také dokázaly vyrovnat náklady s přínosy, které tím získají.



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## **LIST OF ABBREVIATIONS**

ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
CSR	Corporate Social Responsibility
WBCSD	World Business Council for Sustainable Development
IAS	The International Accounting Standards
SE	Social Exchange
OI	Organizational Identification
CSP	Corporate Social Performance
CFP	Corporate Financial Performance

# 1. INTRODUCTION

## 1.1 Research background

Airline transport has increasingly become global, technologically advanced and dynamic growth industry (Lazar, 2003). The relative affordability and speed of travelling by air today have made international travel accessible to a lot of people and it has become an essential part of their lifestyle (Milmo, 2008). For airline firms, it is essential that they stay committed to meeting their customers' growing demand in a sustainable manner, maintaining an optimal balance between economic progress, social development and environmental responsibility. Consequently, Corporate Social Responsibility (CSR) of firms in the airline industry is an increasingly important topic in the global economy.

Airline operations are associated with numerous social and economic benefits, but in recent years it has also substantially impacted on the environment in terms of noise pollution, air pollution and global climate change (Whitelegg, 2000). On a yearly basis, 3.1 billion tons of CO<sub>2</sub> are emitted by the European Union. It is estimated that the number of people forced to deal with serious aircraft noise will increase from 24 million in 2000 to 30.3 million by 2025 - this despite the introduction of quieter next-generation airplanes (Milmo, 2008). There are findings that airlines are spewing 20 percent more carbon dioxide into the environment than previously estimated and the amount could hit 1.5 billion tons a year by 2025 (Milmo, 2008).

In spite of the detrimental effects of airline operations, the global demand for air transport is forecast to grow at around 5% per year and thus will double in less than 15 years (Milmo, 2008). Particularly, the impact of the increasing growth on the environment will be worth mentioning, as aircraft presently release approximately 3% of the global emissions of carbon dioxide and about 2% of nitrogen oxides from fossil fuels. This percentage is anticipated to rise rapidly if technology and policies initiatives are not changed (Barrett and Ferguson, 1996).

According to CSR Europe, 62% of managers of funds and financial analysts have realized a growing interest in socially responsible investment. In the view of Bird, Hall, Momentè and Reggiani (2007) the market structures of the airline industry has influenced not only the independent CSR projects and initiatives but also its totality, and that the facets that they are valued tends to vary over time. Consequently, for a dynamic industry such as international airlines, there is a need for managers who possess the requisite competency to cope with fast changing markets, institutional structures and operational environments (McAdam and Leonard, 2003). Furthermore, it is important for managers in the airline industry to be innovative, environmentally responsible industry that drives economic and social progress (Rochat, 2007). Just like as with any other industry, the airline industry has sustainability risks (social, environmental, operational, threat, strategic and financial risks) that have to deal with. Managers of airlines are responsible for the optimal decision-making about corporate sustainability risks in their daily business.

CSR applies to airline industry as it does to any other economic sector or industry. CSR demands that firms take up their social responsibilities as seriously as the way they pursue their economic objectives. The concerns among stakeholders about the environmental impacts of airline transport means that CSR programs are becoming a point of focus of airline business strategies (Garriga and Mele, 2004; Cetindamar and Husoy, 2007). The benefits of CSR in the airline industry can be categorized into three namely:

- a. In terms of the economic point of view, airlines are essential for facilitating world business and tourism. The industry creates jobs and facilitates the expansion of trade across the globe by opening up new market opportunities. It also attracts businesses to locations all over the world, hence satisfying the mobility requirements of a growing portion of the world's population. It also aids in the movement of products and services quickly over long distances facilitating economic and social participation by remote communities.
- b. From a social perspective, airlines form a unique global transport network that links people in different countries safely and efficiently. Air transport is increasingly accessible to a large number of people who can now afford to travel by air for pleasure and business purposes.
- c. Finally and most importantly, in environmental terms, when airlines minimize or contain the impact on the environment through the continuous improvement of its fuel consumption, there is noise reduction as new and more sustainable technologies are introduced.

The reporting of CSR as an intangible asset has a triple-bottom line approach in the assessment of the performance of a firm: economic/financial, environmental and social factors. In order to understanding the dynamics in CSR dynamics in the airline industry, it is important to approach the concept using the triple-bottom line approach as a guide. The environmental performance relates directly to natural capital (natural resources and processes used by the firm in delivering products and services), while the social performance shows the organization's impact on human and social capital (such as knowledge health, skills and motivation of individuals, human relationships, partnerships). However, the economic performance is made up of financial performance and reflects the firms' impact on the wider economy as well as its own financial capital. The reporting on this triple bottom line is often called sustainable reporting and this is what firms in the airline sector endeavor to achieve.

Generally speaking, there is no conflict between achieving strategic organizational goals and making social contribution such as activities for stakeholders like employees, customers, communities' networks and environment. When this is done, then win-win relationship between organization and society does exist. Building organizational image as a social mature company through CSR will allow the strengthening of customer trust and employees' confidence and the firm's competitiveness as well as the support of public advocacy institutions. Porter (2005) explains that *"the goal is to leverage your company's unique capabilities in*

*supporting social causes, and improving your competitive context at the same time. The job of today's leaders is to stop being defensive and start thinking systematically about corporate responsibility."*

There is a multifaceted link between intangible assets and CSR. A comprehensive assessment of a firm's economic value includes the expansion of the financial reporting process by incorporating the valuation of not only the tangible assets, but also the intangibles and the intellectual assets. Conventional economic theory suggests that firms tend to maximize profits taking into consideration certain constraints. When there are no economic incentives like taxes or quantitative regulations, there is a tendency that the firm might pollute the environment too much, or engage in behavior detrimental to the society to make more profits for their shareholders (Garriga and Mele, 2004).

## **1.2 Definition of the CSR concept**

Since the publication of the report 'Our Common Future' by the World Commission on Environment and Development, the terms sustainability and sustainable development have become prominent in the public debate on CSR. The sustainability debate has, in part, focused on what firms can do to facilitate sustainable development of CSR. Secchi (2007) and Lee (2008) reported that over the years the definition of CSR has been changing in meaning and practice. The classical view of CSR was limited to philanthropy and then gradually shifted to emphasis on the relationship between business and society particularly the contribution that a company provided for solving societal problems. In the early twentieth century, social performance was tied up with market performance. The pioneer of this view, Oliver Sheldon (1923, cited in Bichta, 2003), was of the view that management of firms must take the initiative in raising both ethical standards and justice in society through the ethic of economizing the use of resources under the name of efficient resource mobilization and usage in a way that benefits the business and the environment at the same time.

Milton Friedman was one of the researchers who attempted to bring CSR as a concept into the public debate. He argued that '*the corporate social responsibility of firms is to maximize its profits*' (Friedman, 1970). Though this assertion may particularly appealing to neoclassical economists, it may also sound provocative and without nuance to others. However, as explained by Husted and Salazar (2006) the maximization of profit does not have to be in conflict with CSR. Following from the definition of CSR by Friedman (1970), other researchers such as Heal (2005) suggests that CSR is '*the interactions between corporate behavior and civil and legal society, and how these interactions structure the company's incentives on social and environmental issues*'. Heal (2005) further states that CSR '*are actions to reduce externalized costs and/or to avoid distributional conflicts*'. He argues that in industries where social and private costs are not in line, or where distributional conflicts are common, CSR can play a valuable role in ensuring that 'the invisible hand' acts, as intended, to produce the social good. It can also act to improve

corporate profits and guard against reputational risks. CSR are considered to be actions that, to some degree, imply corporate beyond-compliance behavior in the social and/or the environmental arena.

Today's CSR (also referred to as corporate responsibility, responsible business and corporate citizenship) is a concept where firms take into consideration the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment or ecosystem. This obligation indicates that the firms have to comply with legislation and take voluntarily initiatives to bring improvements in the overall well-being of their employees as well as for the environment at large and their immediate community and society. In simple terms, CSR refers to strategies that are used by companies to conduct their business in a way that is ethical and friendly to the society.

Several reputable organizations with direct involvement in the regulation of CSR have also attempted to comprehensively define CSR. In one definition by World Business Council for Sustainable Development (WBCSD), Corporate Social Responsibility is referred to as *"the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."* Also, the Business Leaders Forum defines the CSR concept as *'the voluntary engagement of companies to behave responsibly to both the environment and society they are operating'*.

Furthermore, according to the World Bank, *"Corporate Social Responsibility (CSR) is a term describing a company's obligations to be accountable to all of its stakeholders in all its operations and activities. Social responsible firms consider the full scope of their impact on communities and the environment when they are making decisions, balancing the needs of stakeholders with their need to make profit"* (in Nicolau, 2008). That is to say that the main force that drives companies to adopt CSR's is the subsequent financial benefits. Although the causality between the two is not yet clarified, empirical research nevertheless indicate a concurrent relationship-interaction between CSR and financial performance (Weber, 2008).

### **1.3 The concept is Intangible asset**

Intangibles refers to the type of assets that are not physical in nature. Intangible assets are usually classified into two categories. The first category refers to those that are "recognized" and have an attributed value in the financial statements. The second category comprise of those that are unrecognized for financial reporting purposes. CSR falls in the second category of intangible assets because firms recognize such expenditure and capture them in their annual reports. The International Accounting Standards (IAS 38) defines intangible assets as *"those non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or legal right) "*. If an intangible asset meets the relevant recognition criteria, then they are measured at cost and usually have a

life of more than one year. There is a growing focus on the impact of CSR on the corporate assets. Within the airline industry CSR contribute to competitive capacity and are therefore critical component of an organizations' sustainability into the future (Asatryan and Březinová, 2013). Over the years, CSR has developed from a simple form of check-writing by firms into a very complex set of principles that affects all the interactions between firms and the society. As an intangible asset, CSR does not only include the things companies do with their profits, but also how they make them.

#### **1.4 Statement of the problem**

The concept of CSR is a challenge for managers of airlines in today's risky, competitive and complex business environment. In view of this, there has been a need for firms in the airline industry to develop an environmental agenda and take measures to minimize the ever-increasing environmental impacts created from their activities (Asatryan and Březinová, 2014). CSR is necessary in the airline industry because this industry has strong externalities, and they are visible (CO<sub>2</sub>, noise), and so the concept of responsible behavior is desirable (Hawkins, 2006). The airline industry is specifically selected for this study because of those strong externalities and because of the complexities of operation and mechanisms of regulation (Hawkins, 2006). The forms of CSR in the airline sector among other things includes working in partnership with local communities, socially sensitive investment, developing relationships with employees and customers as well as involvement in activities for conservation of the environment and its sustainability.

According to Porter and Kramer (2006) CSR has become "*an inescapable priority for business leaders.*" Firms that are socially responsible are coming to the realization that the financial interest of the firm in the long-term are not "mutually exclusive" while acting fairly in the interests of other relevant stakeholders rather than only the shareholders (PJC, 2006). Within the business model, addressing environmental and social concerns is no longer seen merely as a response to the regulator, and the policy-makers, but rather as a proactive financial decision (Blackburn, 2007).

Consequently, the implementation of CSR initiatives that is environmental and social is a significantly pursued among firms in the airline industry. However, the dilemma faced by firms in the airline industry is how to engage in CSR in the most cost effective and profitable way (Cetindamar and Husoy, 2007). Through investments in the environment are welcomed by society and recognized as an intangible asset among practitioners, airline firms are generally not attracted to it. The prime reason is that such an investment entails an initial significant contribution of money, while the majority of those are treated as investments that are irreversible in the face of output price uncertainty (Cetindamar and Husoy, 2007).

Another major concern about environmental investments is the time frame in which the return on the initial investment is realized. Long-run return investments, as the environmental ones, are less desirable for decision makers, as they are



associated in the business industry with high risk. Hence, there is a need for an optimization factor in the determination of the return on initial investment, in order to make CSR investments more attractive (Weber, 2008). This factor of optimization is linked with the financial benefits that occur through the strategies of CSR in the context of the airline industry. Indeed, firms in the airline industry spend resources to convince current and potential consumers, regulatory bodies and other stakeholders that they are more socially responsible than what the authorities or society demand (Asatryan, 2013). Regulatory bodies constantly formulate policies that are geared towards ensuring that, airlines act responsibly and reduce or limit the extent of externalities (pollution) to the environment in the course of their operations (Hawkins, 2006).

Locating tools for maintaining and improving financial performance in addition to overall firm competitiveness is increasingly critical in today's stagnant global economy. As a result, corporate social responsibility's (CSR's) effects on financial performance have received increasing attention in recent years. For airline firms, the crux of the matter is how best to streamline their CSR initiatives to make them efficient without much impact on their bottom-line, while at the same time getting the commitment of managers and employees to build their corporate reputation and increase their competitiveness (Asatryan and Březinová, 2014). Studies in the past have focused on whether there is a positive (Mirfazli, 2008) or negative (Barnea and Rubin, 2006) relationship between CSR and financial performance. What is missing is a comprehensive study that provides a framework and guidance for CSR investment that will bring win-win results for the various stakeholders.

This research therefore analysis the concept of CSR as an intangible in the airline industry using the multiple stakeholder triple-bottom line approach. The airline industry is selected because; local and international regulators are constantly on them to act responsibly towards the society by either reducing their emissions to invest into initiatives that would reduce the impact of such emissions on the society.

## **1.5 Objectives of the research**

The main objective of the research is to provide a comprehensive understanding on the role of CSR as an intangible asset in the Airline Industry in Central and Eastern Europe. The following are the research objectives for the research.

- a. The perception of customers on the contribution of CSR practices to the profits of airline firms.
- b. The effect of CSR ratings of airline firms on customer's decision to patronize airlines.
- c. Customer's perception on whether airline firms have a social responsibility aside their profit interest.
- d. The effect of CSR strategy on the reputation of airline firms.
- e. Employee's (internal stakeholders) perception of their company's CSR performance and how does it foster the employees' attitude to performance in airline firms.

- f. Corporate social responsibility and financial performance of airline firms.

## **1.6 Research questions**

The following are the research questions that the sought to answer

- a. In your opinion, what is the benefit of CSR as an intangible asset in the Airline Industry?
- b. Is there a significant difference in the perception of customers on the contribution of CSR practices to the profits of airline firms?
- c. Does the CSR ratings of airline firms affect customer's decision to patronize airlines?
- d. Does airline firms have a social responsibility towards the society aside their profit interest?
- e. Does the CSR strategy of the airline firm affect its reputation?
- f. What is employee's (internal stakeholders) perception of their company's CSR performance and how does it foster the employees' attitude to performance in airline firms?
- g. What are the effects of the CSR on the financial performance of airline firms?

## **1.7 Significance of the research**

In this days that firms are constantly looking for ways to cut cost and increase their bottom line, it is essential for them to reap returns from their CSR initiatives. As an intangible assets, it often difficult to establish how such investments impact on the firms finances. Hence this study is essential as it brings out practical and results oriented analysis for investing in CSR within the airline industry.

The research is significant as it identifies the suitable and effective managerial approach for managing the CSR activities of modern airline businesses. Based on the essential factors that are considered to be key for the implementation of corporate social responsibility so as to meet financial, strategic, operational, ecological and social goals of the firm, the research will development a comprehensive framework or for managing CSR activities within the airline industry that will benefit the internal stakeholders (in the terms of their reputation and financials) and the external stakeholders (in terms of value and sound environment).

Finally, the research provides practical and result oriented strategic framework that would guide researchers into CSR and practitioners across industries on how to develop and implement their CSR activities to satisfy the various stakeholders profitably.

## **2. STAKEHOLDERS PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY**

### **2.0 Introduction**

This chapter focuses on the concept of corporate social responsibility from a multi-stakeholder perspectives. It looks at the various stakeholders within the airline industry and their expectation of CSR of the firm. The essence is to bring out the factors that firms must inculcate in their strategies to be competitive in the market.

### **2.1 Stakeholder's perspective of the firm**

Stakeholder theory of the firm has been developed since the 1970s. The stakeholder theory shows that firms are more than mere autonomous individual actors. They play a role in a community that places obligations, expectations and responsibilities upon them. CSR considers firms as citizens of a community and therefore are subject to societal control and having limitations on their actions. As a key stakeholder of the society, the role of businesses have received increasing attention over time, with their impact on their employees, the environment, local communities and other stakeholders, becoming the focus of debate. The reason for this increasing debate has been the increasing size of corporations, and thus their ever increasing impact on society. In the view of Solomon (2007), the influence of firms on the society has become so pervasive to the extent that, they are expected to discharge accountability not only to their shareholders but also to various sectors of society.

There are a number of ways to define stakeholder theory and stakeholders. However, there is a common trend with all stakeholder definitions, and it is when the involvement of stakeholders are acknowledged in an “*exchange relationship*” with firms (Solomon, 2007). According to Freeman et al. (2001) the responsibility of firms is not to their owners only but also to “*any group or individual who can affect or is affected by the achievement of the firm's objectives.*” This definition is tends to be rather vague because; anyone can claim to be a stakeholder of a company. Considering that the word “*stakeholder*” refers to a person who holds a stake on an issue, it can be inferred that in order to be a stakeholder, a person must have some property, asset or crucial interest “at risk” in a business. Some examples of stakeholders are shareholders, industry associations, government, suppliers, customers, creditors, employees, media and local communities (Solomon, 2007).

### **2.2 A multi-stakeholder CSR framework**

In this dissertation, the triple bottom line approach to CSR will be used as the conceptual framework. The triple bottom line approach introduced by Elkington in 1994 is used in describing the expectations of stakeholders on the responsibility of firms. In today's business environment, a sustainable corporate profit as well as growth is not achieved from single-minded pursuit of financial gain, rather, it is

achieved through working with a broad framework of economic, social and environmental objectives. A positive triple bottom line shows an increase in the firm's value, including its profitability and shareholder value as well as its social, human, and environmental capital (Henriques and Richardson, 2004).

The triple-bottom-line approach to CSR is essential in the implementation of CSR policies in the aviation industry. The triple-bottom-line approach specifies the airline firms orientation by means of its activities whereby the three consequences are assessed in the decision making process. The concrete fulfilment of the individual pillars is linked with the activities of the aviation firm, its focus and the philosophy set. However, it is possible in general to define the elements of the individual pillars in the triple-bottom-line approach for airlines. The components of the triple-bottom-line approach are as follows:

**a. Planet - environmental responsibility**

Lately, environmental responsibility has a crucial impact on businesses and their CSR programs. Over the past decades the overall perception of it has changed as well as the degree of importance for corporations operating in today's business. There have been multiple attempts to define Environmental Responsibility in the past. However, the components of the various definitions include:

- Ecological production, product and services
- Investment in new environmentally safe technologies
- Protection of natural resources and the ecosystem
- Investment into ecological technologies
- Protection of the ozone layer

**b. Profit - shareholder value, thus economic and financial considerations**

Economic responsibility refers to the conditions where firms have a financial or economic responsibility to those who have provided it with financial resources or other services, and expect to receive a compensation for their troubles. In some cases, firms can also be held economically responsible as a form of compensation for their violation of laws or expected ethical customs. Economic responsibility could be in the form of payment of wages for employees, charging customers fair prices and delivering agreed products, paying interest on loan among others (Blackburn, 2007). The concept of economic responsibility could be widened to include consideration for the firms' responsibility to provide local communities and other stakeholder groups with economic growth opportunities, as well as the favor given to certain stakeholders, such as suppliers or employee groups due to ethical considerations. The principles are as follows:

- Good company management (i.e. corporate governance), ethical code.
- Refusal of corruption
- Transparent business transactions
- Relationship with investors, supplier-customers and customers
- Quality and safety of products and services

### **c. People – social responsibility**

Social responsibility in the CSR concept refers to the social responsibility of enterprises that do business in accordance with the ethical and moral standards acceptable to society (Hawkins, 2006). These standards might change and vary according to their own perceptions that enterprises have of it, but the overall base is the same. Social responsibility has to do with an obligation on the business to protect and improve the welfare of both society and business as a whole by taking proper legal, moral-ethical, and philanthropic actions (Blackburn, 2007). Essentially, it must be accomplished within the economic structures and capabilities of the firm. The socially responsible initiatives need not be profit-generating. Social responsibility is made up of the following:

- Corporate philanthropy and corporate voluntarism to the ecosystem
- Employment policy and general employee well-being
- Employment minorities
- Equality of men and women
- Respect for human rights

The pillars of CSR provide possible distinctions and different classifications of the activities airline firms can apply within their social responsibility agenda. Responsibility is characterized by the voluntary effort of companies to behave better to people and to their surrounding environment. Firms in the airline industry do not maximize their profits at any price, but rather follow the path of its optimization. This way, they cannot lose anything and they can gain a lot. They participate in the sustainable development of society, help concrete people and concrete projects and, at the same time, strengthen their position and assure the conditions for their long-term growth. The social maturity of individuals is significantly reflected in their decisions and attitudes, creative output in the environment at large and personal attitude to life.

The triple-bottom line approach to CSR is conceptualized into a multi-stakeholder CSR framework for analyzing CSR policies from both the internal and external stakeholders of the airline firms (Vlachos, Theotokis and Panagopoulos, 2010). The multi-stakeholder CSR framework is given as:

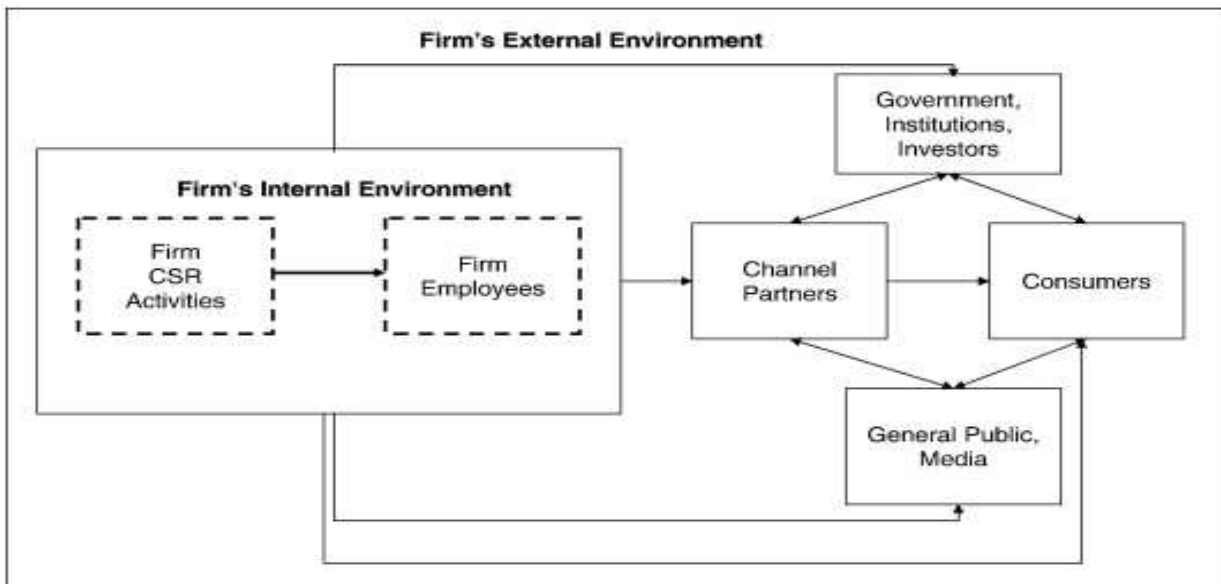


Figure 1: A multi-stakeholder CSR framework  
 Source: Vlachos, Theotokis and Panagopoulos (2010)

### 2.3 CSR in airline industry

In the past years the viewpoint of organizations concerning sustainable business actions has changed, some due to laws and regulations and others due to stakeholder as well as environmental interest. The question that every firm needs to answer and evaluate is the extent to which their actions is considered as responsible. Firstly, the firm is responsible for the achievement of an economic benefit of employees and owners. All other actions are considered as a plus and as a secondary responsibility which have been ignored for the past years. There is a new way of business emerging as a result of the increasing awareness of CSR and the impact that activities of airline firms have on the environment. Considering the primary and secondary responsibility, Phillips (2006) explains that CSR is both a philosophy and practice, mainly for organizations that voluntarily act so as to assist society in positive ways beyond that which is required to obtain profit objectives.

Generally, it appears that on the issue of CSR, the airline industry and the sustainability paradigm seem to contradict themselves. If the overall world traffic in the airline industry is to increase tremendously and this will result in increased carbon emissions, raw material consumption and overall pollution. Therefore, there is a need for actions to be developed to support and fulfil stakeholders' expectations, as well as taking care of environment. Unfortunately the current predictions estimates that global damage to society and the environment due to increase in interest in the airline industry. It is estimated that, the number of emissions of nitrogen oxides will increase from 2.5 million tons up to 6.1 million tons in 2025 and CO<sub>2</sub> emissions will have doubled to 1229 million tons (Aviation Environment Federation, 2008). Therefore, there will be more emissions will be released into the atmosphere especially close to the airports. In order to reduce the emissions, firms in the airline industry would have to invest a lot of money which then would dissatisfy

shareholders and harm the overall profitability. The huge investment would mean that less funds will be available for paying the remuneration of employees' and expanding the firms operations into other market. However, airline firms are faced with a dilemma because the requirements by regulators require that airline firms should make these huge investments.

Some airlines operating in the industry have made promises to take steps aimed at reducing emissions, but the truth looks different. Experts have suggested that, one of the means of improving the impact of airline activities on the environment is through carbon off-setting. The challenge has to do with the awareness factor regarding the customers. It is not clear whether or not the carbon off-setting is voluntary or compulsory. According to Oosterhuis (2007) a major problem regarding carbon off-setting is the fact that non-CO2 emissions, like contrails and nitrogen that have a direct environmental impact, and are not included in the off-setting calculations. Hence, passengers are not able to offset all emissions. In some market, carbon offsetting is used as a source of protection against new governmental restrictions. Therefore, the initial purpose of environmental responsibility is not evident anymore. Though not all airlines implement CSR, the relevant of firms in the airline firms in future's business actions will depend highly on the actions they take now in order to protect society, economy and the environment.

## **2.4 The need for CSR strategy in airline business**

Lately, business strategy is as essential as never before in the life of firms due to a high need in business life for forecasting, measuring and developing business actions further. There are always competitors who are potentially doing better business in terms of their revenue streams. Airline firms that are going to last and also be profitable in the future are the ones with CSR incorporated into their business strategy. It must therefore be noted that the implementation of CSR is inevitable. Like many other firms in other industries, having a clear vision on how to implement CSR is crucial. There is therefore a need for a "road map" on how to ensure a successful outcome of CSR implementation. It makes it possible for the firm to be successful whilst using its resources within its unique environment to meet market needs as well as meet stakeholder expectations (Industry Canada, 2006).

Esty and Winston (2006) have mentioned that stakeholders are nowadays pointing concrete questions at companies concerning specific environmental issues. This emerging interest in responsible behavior reshapes markets, creates new business risks but also offers opportunities for companies that are prepared to respond. Hence, when CSR actions are incorporated into business strategies, it gives the firm the flexibility as well as the ability to adapt quickly to new market situations. In the view of Esty and Winston (2006) when CSR actions incorporated in the business strategy, it is an increasing potential for upside benefits. Innovation and entrepreneurial actions are often visible in firm that include the environmental lens into their business. During periods of recession such firms have found a way to set

themselves apart from competitors and elude the downward trend in the economy. In order for the firm to respond to customers' needs, firms tend to drive revenue growth and increase customer loyalty. Only firms that build, maintain and continuously strengthen their own identity and its market will survive in the long run (Industry Canada, 2006).

The implementation of CSR strategy implies that there are multiple benefits for a firms that differ in its importance according to the overall business actions and markets the firm is operating. The Industry Canada (2006) enumerates the benefits that are easily transferrable to other industries around the world. An anticipation of risks and risk management in the environmental, social, economic as well as legal sectors is one of the benefits that assures an overall greater oversight concerning stakeholders and market movements. Firms are able to increase their reputation using CSR actions. For companies that operate in the airline industry, they stand a chance to benefit from CSR actions to a great extent, not only in terms of customers perception and patronage but also supply chain partners hold them in high regard. Such firms usually have a greater opportunity to recruit, develop and retain staff. When the firms' employees are proud of the product and business actions, it will show in the results. Improvement in the resource practices will contribute to improved loyalty towards the firm itself.

Moreover, CSR is also a driver of the firm's competitiveness in a number of ways. Firstly, because of the satisfaction of the staff and secondly because of increased reputation and improvement in the actions of business. Innovation and product differentiation creates opportunities for new markets in return. Additionally, Industry Canada indicates that improvement in operational efficiency and cost savings are some other benefit. Due to an efficient approach towards management activities as well as constant evaluation of the business processes, energy can be saved and areas where waste is generated can be turned into revenue. As already stated, CSR is a good strategy for improving overall business relationships especially in the supply chain management. Firms benefit from long-term, partnerships that decreases the overall time needed to adapt to market changes. Therefore there is improvement in business efficiency and the earnings of such firms increase. Additionally, co-operating with local communities becomes much easier, because of the increase in the understanding of stakeholders and the relations with between the firm and shareholders will improve immensely.

Firms in the airline industry are constantly looking for capital. These funds are needed for investment and financial institutions are increasingly integrating social and environmental criteria in their decision making process. Therefore, effective CSR initiatives and its implementation could give firms competitive edge required to convince the financial institutions to invest into their business. In the view of Esty and Winston (2006) CSR efforts such as cutting waste and reducing resource use can make savings for the firm that and it can contribute to the bottom line of the firm. Exploring alternatives for using less energy, the exposure to volatile oil and gas prices will be lowered. This will make it possible for firms to avoid business



risks whilst at the same time protecting the environment. Firms that are efficient succeed in lowering both financial and operational risks. The strategies developed to protect the environment provide added degrees of freedom to operate, profit and growth (Esty and Winston, 2006). However, before the CSR actions are implemented, it is essential for firms to undertake a considerate evaluation of costs that might occur during the process. It is only when the benefit of the CSR initiative is higher than the overall cost that it would be incorporated into business processes. This pre-supposes that those initiatives that might turn into loss should be avoided.

## **2.5 Model of CSR strategy for competitive advantage**

In the past years CSR has been used in a deeper meaning and therefore it has been widely implemented into companies' business actions and strategies. Because there is an increasing awareness of CSR being a useful marketing tool, companies start to market their CSR actions to stakeholders to strengthen their competitiveness in the markets. Bueble (2008) explains that CSR communication can be defined as *“using promotional techniques that are directed at providing information about the CSR initiatives of firms whilst supporting indicators of competitiveness such as CSR-based brand identity and relational as well as behavioral loyalties or switching behavior.”* Therefore social, ethical and environmental behavior is related and they are communicated not only within the organization itself but also throughout the whole supply chain.

Bueble (2008) further explains that marketing of CSR actions has been used in the past for building the awareness of firms as well as conveying corporate image. The communication of CSR initiatives and its careful evaluation is critical in order to successfully use CSR in a marketing strategy. Lately, in the airline industry, firms are increasingly using not just their CSR initiatives, but they are also using the sustainability of such initiatives in their marketing actions to generate a competitive edge as well as building up customer loyalty, satisfaction and resilience. Research has shown that today's consumers are not only interested in the marketing mix itself but are more likely to buy products from a company that they perceive as having a good reputation. Therefore, building a corporate brand and market companies CSR actions is one way of conveying customers into buying a product or patronizing a service (The Centre for Sustainable Design, 2010).

Although it is widely known that stakeholder groups consider CSR important, many companies fail in communicating their actions in an effective way. This is due to an unclear guideline on how to communicate CSR initiatives. Increasing the awareness level amongst the stakeholders will be the first step of gaining the benefits of it. But all intentions of a company to communicate its CSR actions will not be effective as long as a strategy on how to implement CSR into marketing does not exist. The absence of an overall marketing actions may not be inefficient and off target (Bueble, 2008). Over the last decade, there has been attempt to include CSR into the business strategies of firms in the airline industry. In view of that, actions

have been developed to build the firm's corporate culture with a combination of economic, social and environmental actions (Alagse, 2010).

Previously, business actions and social responsibilities were seen as two different concepts. Business actions were those activities inside the company while social responsibility actions were viewed as those outside the company. The obsession by firms with profitability and earnings made them miss out on the opportunity to include CSR in their business actions. Presently the trend is changing. Figure 2 provides a framework that describes the actions that firms in the airline industry need to take in order to gain competitive advantage.



Figure 2: Integration between CSR initiatives and business strategy  
Source: Alagse (2010)

According to Alagse (2010) there are four different levels of CSR actions that can be incorporated into the business strategy in order to achieve a competitive advantage. The strategies are as follows:

- **Reactive strategy:** In time past, the reactive strategy was used by firms to gain the trust and confidence of the society. The reactive strategy is where the firms pay penalties on social responsibility actions that could have been prevented. The high cost involved in this strategy made firms to explore other alternatives that would make them active in social responsibility issues whilst keeping the spending down. This will make the firm's strategy proactive. Alternatively, the firm could prevent problems rather than reacting to problems after they have occurred.
- **CSR as an image building exercise:** This strategy is a response to the reactive strategy in which firms failed to discharge social responsibility. It is more of a damage control exercise and a way to recover from the reactive strategy. Lately, it has become common for firms to use and communicate their CSR actions to the public. Such initiatives are seen as an opportunity for building up the corporate image of the firm. When firms include social actions into

business actions rather than just mentioning them, they are offered the opportunity to enhance the firms overall image as well as building a positive reputation of societal concerns. This eventually ensures competitive advantage. The only low side of this strategy is that the firm's actions are not necessarily related to the implementation of CSR into a business strategy. In order to build a sustainable business, there is a need to move beyond highlighting the firm's actions in the media. Hence, if CSR is to serve as an effective tool for image building, there is a need to overcome the border of being an instrument for public distinguishing and align CSR with the overall goals and objectives of the business.

- CSR to improve operating efficiency: The environment does not only improve the ability of the firm to work inside environmental regulations but also it helps in the reduction of operating costs by increasing the firms overall efficiency. This type of business operations has a mutually beneficial results for both the overall business as well as the living conditions of future generations. Also, these actions can be used to project a business case for CSR also further show the implementation and integration of these actions to achieve better business outcomes. It must be noted that the implementation of this strategy alone is not a guarantee for profitability. It must be combined with other business actions in order to yield the desired outcomes.
- CSR as a source for competitive advantage: This begins by the firms understanding of the communities in which it operate and the impact the firm's actions or inactions will have on them. It is essential to evaluate how both the community and the business can benefit from future actions in the short and long run. Due to the fact that finding a solution that suits everyone is rather difficult, it is important for detailed discussions and evaluations to be conducted to ensure that the firm remains profitable now and in the future. Within the airline industry, the firm's decisions on climate change as well as responsible behavior is considered as a decisive factor for success in the future. Therefore, more and more firms in the airline industry are focusing on creating a corporate culture that incorporates responsible actions.

## **2.6 CSR and corporate reputation among relevant external stakeholders of airline firms**

The concept of CSR among other things is a corporate objective where firms consider the interests of society in their actions. Firms are able to do this by taking responsibility for the impact of their actions on stakeholders in various aspects of operations. To be considered as socially responsible goes beyond good citizenship because it requires that firms to voluntarily take steps beyond their statutory obligations to contribute to the improvement in the quality of life within the society (Martin, 2008). The focus of socially responsible corporations is not solely profit maximization. This is mainly because investments in CSR are not solely focused on maximizing profit, however they can still be somewhat controversial. Some

researchers are of the opinion that the additional investment in CSR increase costs, hurt performance and compete with value-maximizing activities. However, others are of the view that these additional investment in CSR are beneficial to the firm performance and contribute to value-maximizing activities.

According to Barnett and Salomon (2006) CSR activities improve trust and relationships with stakeholders which can eventually improve their returns. Firms that are socially-responsible face lesser labor problems, lesser complaints from the community, and lesser environmental concerns from the government. Additionally, firms that are socially-responsible may have improved relationships with stakeholders such as investors, bankers, and government officials (Barnett and Salomon, 2006). Furthermore, Barnett and Salomon (2006) explain that, lately, increasing numbers of investors value the way firms meet their social responsibilities. The factors above shows a positive performance benefits from investment in CSR. Recently, Vilanova, Lozano and Arenas (2009) developed a model that explains how the activities of CSR relate to financial performance and other dimensions of competitiveness of firms. They suggest that corporate reputation is part of the framework links CSR and competitiveness. Consequently, the adopting a CSR strategy impacts on the firms image and reputation, which eventually impacts on competitiveness. From the model, it can be deduced that CSR strongly influences reputation, and reputation is a key determinant of firm competitiveness (Vilanova et al., 2009). In other words, CSR has an impact on the competitiveness of firms through reputation and there is a linkage between CSR and performance (Vilanova et al., 2009).

It is important to clarify the three variables used in Vilanova et al. (2009), thus, CSR, reputation and competitiveness. The Commission of the European Communities (2001) explains that CSR is *“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis...it means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and the relations with stakeholders.”* Furthermore Fombrun (1996) defines reputation as *“a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents when compared to other leading rivals”* while Roberts and Dowling (2002) explain that corporate reputation is *“a general organizational attribute that reflects the extent to which external stakeholders view the company as “good” or “bad”*. Finally, competitiveness is seen as the firms’ strength in comparison with its peers (Murtha and Lenway, 1994). There are five key competitiveness dimensions (Vilanova et al., 2009). They are financial performance productivity and efficiency (Porter, 1985), (Hamel and Prahalad, 1989), quality and customer satisfaction (Barney, 1991), innovation (Mintzberg, 1993), and image (Kay, 1993).

The theory of strategic management shows that a good reputation can create competitive advantages for firms’ (Fombrun, 1996, Roberts and Dowling, 2002) which eventually increases the firm’s performance. In turbulent times, the firms

reputation can become an increasingly valuable asset and buffer financial performance. It can also insulate the reputable businesses from the full impact of tough economic times in various ways (Dowling, 2001). Firstly, the firm's reputation can protect revenues from economic downturns (Fombrun, 1996). Naturally, customers tend to place value on their relationships with highly reputable firms and may pay a premium for the products and services from these high-reputation firm especially in uncertain markets and economies (Shapiro, 1983). Secondly, having a good reputation can help create cost advantages (Podolny, 1993) and is also associated with firm efficiencies (Stuebs and Sun, 2009). Also, when firms have good reputation, it can bring improvement in trust and relationships with a number of stakeholders which can result in a reduction in costs and improved efficiencies. In the view of Podolny (1993) there are a number of cost reductions that can arise from improved reputation. Because good reputation attracts customers, the cost involved in advertising to attract business are lower. Further, a good reputation improves the relationship with stakeholders as well as building trust and lowering transaction costs. Also, a good reputation can also lower financial costs.

When the firm has a good reputation, it can lower labor costs (Frank, 1985) and improve labour productivity and efficiency as well as credibility with suppliers (Stuebs and Sun, 2009). A research by Landon and Smith (1997) shows this positive relationship between reputation and performance. The reputation's performance benefits that accrues to firms are an important drivers that are used to sell CSR policies within organizations. Because reputation is considered as an accepted and valued intangible asset (Schnietz and Epstein, 2005), the managers of firms seem to focus on reputation to force corporate change towards implementing CSR (Vilanova et al., 2009). The improvement in the reputation and benefits that results from that are fundamental drivers to initiate and implement CSR (Vilanova et al., 2009). What this means in essence is that CSR is positively associated with reputation.

## **2.7 Employees' perceptions of their company's CSR performance**

The concept is CSR is both a high profile notion and many practitioners in the business world consider it to be strategic (Porter and Kramer, 2006), also it is a prominent concept in among those in academia (Lockett, Moon and Visser, 2006; Margolis and Walsh, 2003). The diffusion of the firms CSR practices is driven largely by pressure groups (Brammer and Millington, 2003), and the emerging trends in markets for virtues' such as Socially Responsible Investment. This has created an effective and yet limited, commercial pressure on firms to adopt CSR policies and constitute a growing CSR industry (Vogel, 2005). A recent global survey of 1,122 corporate executives showed that there is a perception among CEOs that firms tend to benefit from CSR because it increases their attractiveness to potential and existing employees (Economist, 2008). A study in France by Humière and Chauveau (2001) on CSR showed that employees were considered the most important stakeholder group toward whom firms have to exercise their social responsibility. In 2005, the UK Department of Trade and Industry (DTI) launched a

competency framework on CSR. The framework was to promote the adoption of CSR by corporations. This framework tends to support human resource manager's efforts to enhance employees' adoption of socially responsible behavior (Redington, 2005). This shows that employees are central in the deploying CSR strategies.

Several studies on the internal impact of CSR on employees often focus on specific dimensions of organizational commitment (Maignan and Ferrell, 2001; Brammer, Millington and Rayton, 2007; Peterson, 2004). In the view of Husted (2000), because CSR is of a multidimensional nature, it can influence a wide range of organizational attitudes and behaviors beyond organizational commitment. Aguilera Rupp, Williams and Ganapathi (2007) and Rupp, Ganapathy, Aguilera and Williams (2006) explain that CSR can change employees' perceptions of organizational justice. Swaen and Maignan (2003) and Swanson and Niehoff (2001) also indicated that CSR can affect Organizational Citizenship Behavior (OCB). This tends to indicate the lack of theoretical consolidation and synthesis on how and why CSR impacts on employees' attitudes and behavior. The lack of theoretical consolidation can be explained by the limited empirical evidence available.

Several empirical studies have investigated the role of stakeholders' behavior as a mediating variable between CSR and financial performance (Barnett, 2007; Rowley and Berman, 2000). However, most of these studies have mainly focused on consumers (Luo and Bhattacharya, 2006; Brown and Dacin, 1997; Schuler and Cording, 2006; Sen and Bhattacharya, 2001). Some other empirical studies have highlighted on how identification explains CSR's influence on consumers and employees (Maignan and Ferrell, 2001; Peterson, 2004; Bhattacharya and Sen, 2004; Sen & Bhattacharya, 2001). Recent theories propounded have suggested that stakeholder management is closely aligned with organizational identity (Brickson, 2005; Scott and Lane, 2000). However, the social identity theory does not integrate notions of reciprocity, expectations and mutual obligations which are considered essential in the understanding of how attitudes and behavior as well as identification, could contribute to corporate performance (Cropanzano and Mitchell, 2005). CSR is made up of all the actions geared towards stakeholders which are beyond the scope of traditional corporate activities. It involves the environment, NGO's as well as other social groups. The actions could alter the dynamics between airline firms and their employees, thus creating a need for employees to reciprocate positive social behavior (Molm and Cook, 1995).

It has been found that the employee's identification with an organization may be aligned with specific forms of social exchange (Flynn, 2005; Molm, Peterson, and Takahashi, 1999). This findings means that individual levels of organizational identification may influence social exchange, and subsequent processes, triggered by CSR, could also have an impact on the social exchange dynamics within firms. In this study, the both the social exchange and social identity theories are combined in order to provide a detailed explanation on how employees may develop a sense of obligation and engage in productive or counterproductive behaviors in the workplace. In the view of Barnett (2007) CSR is a kind of investment by firms and it

is characterized by a dual orientation towards the improvement of social welfare and the relations of the firm with its stakeholder. The focus on stakeholder relations explains why employees as a stakeholder group could have an impact on the CSR policy of firms.

Firstly, employees could be agents for social change when they push airline firms to adopt socially responsible behavior (Aguilera et al., 2007). Secondly, through environmental policy, the support of employees is necessary to secure effective CSR programs and policies (Ramus and Steger, 2000). Thirdly, as part of the firms stakeholder group employees perceive, evaluate, judge and react to CSR programs and actions (Rowley and Berman, 2000; Rupp et al., 2006). Theoretically, stakeholder groups of employees can be considered as an independent variables, explaining the emergence of CSR (Aguilera et al., 2007), as a dependent variable influenced by CSR (Peterson, 2004), or as a mediating variable of CSR influence on corporate performance (Barnett, 2007). Research in the past on CSR research has focused on relationships between leadership and corporate social behavior (Swanson, 2008; Waldman, Siegel and Javidan, 2006), or defined socially responsible leadership (Waldman and Siegel, 2008).

Several studies have focused on the influence of CSR on prospective employees. These studies tend to dwell on signaling theory (Spence, 1973) and social identity theory (Ashforth and Mael, 1989). They suggest that a firms socially responsible practices send a positive signal to potential workers. The employees also are likely to identify themselves with responsible organization, especially if their values correspond with promoted practices (Strand, Levine and Montgomery, 1981). From the studies above, it is seen that a socially responsible reputation makes corporate entities attractive for prospective employees (Albinger and Freeman, 2000; Blackhaus, Stone and Heiner, 2002; Luce, Barber and Hillman, 2001). The effect of CSR's on organizational attractiveness is stronger for those who are seeking jobs but have several job options (Albinger and Freeman, 2000), and when there is prior knowledge of CSR and/or are often concerned with the issues that the CSR addresses (Blackhaus et al., 2002). Strand et al. (1981) has shown that in order to determine how improved societal or environmental corporate performance influences the attractiveness of firms to job seekers, it is important to consider both job and organization attributes.

Montgomery and Ramus (2003) conducted a survey with MBA students and found that they were willing to forgo financial benefits in order to work for firms that have very good reputation for CSR. Therefore CSR can be a useful marketing tool for attracting the most qualified employees aside the fact that is an essential component of corporate reputation (Fombrun and Shanley, 1990). Because CSR enhances corporate image and reputation, it is an appropriate tool for marketing to attract prospective employees. When CSR is directed at employees, there is a positive perception by both prospective employees and a wider audience, including actual employees. A study by Riordan, Gatewood and Bill (1997) that used external corporate image as a proxy for social performance found that, the perception of

employees on corporate image can positively influence job satisfaction, and negatively influence turnover and turnover intentions.

Some researchers have studied how CSR influences incumbent employees. The studies gave a strong empirical support for the influence of CSR on employee (or organizational) commitment (Brammer, Millington and Rayton, 2007; Aguilera, Rupp, Ganapathi and Williams, 2006; Peterson, 2004). Recently, some studies suggests that CSR may influence employees through other mechanisms than identification (e.g., social exchange), and that CSR may influence employees' attitudes, needs and behaviors other than commitment (Aguilera et al., 2007). Swaen and Maignan (2003) explains that CSR can have a direct influence on employees' adoption of socially responsible behavior within firms.

Research in the past shows that socially responsible behavior has two distinct and parallel paths and this explains the present gap in knowledge on the influence of CSR's on employees (Swaen and Maignan, 2003). Research conducted at the macro-level focused on firm as its main unit of analysis. These studies focused on the financial impact of CSR (Margolis and Walsh, 2003; Orlitzky, Schmidt and Rynes, 2003). At the micro-level the research focused on individuals as the unit of analysis and did not refer explicitly to employees' socially responsible behavior (Schneider, Oppenheimer, Zollo and Huy, 2004; Treviño Weaver and Reynolds, 2006). Researchers in the past have generated concepts that are potentially useful to for studies in behaviors such as Organizational Citizenship Behavior (OCB).

## **2.8 Organizational Identification**

Organizational identification refers to the extent to which the people within organizations perceive that an organization shares their defining attributes (Pratt, 1998). Often people tend to identify themselves with organizations when they perceive salient attributes of the organization and individual attributes are in tandem. The advocates of social identity theory (Pratt, 1998), explain that people tend to identify with an organization when they perceive that

- it is highly prestigious and has an attractive image; and
- organizational identity can enhance the self-esteem of members

In times when people want to develop and maintain a favorable sense of self-worth and self-esteem, they seek to join and stay with companies with high reputation and high status. A study by Dutton and Dukerich (1991) found that image perceptions influence employees who use the images to evaluate outsiders' perceptions of both the firm and themselves. Hence, the image of firms as conveyed by CSR can directly contribute to employees' sense of self (Riordan et al. 1997). The theory of Social identity explains why employees care about CSR initiatives developed by companies. Firstly, activities on CSR shows that the firms character that it is not just fundamental and relatively enduring but also it is often more distinctive than other corporate activities (Sen and Bhattacharya, 2001). Employees are likely to identify with socially responsible companies, especially when the firms



values match an employee's self-identity. Secondly, firms that are socially responsible usually gain positive public reputations (Fombrun and Shanley, 1990). Employees have proud feelings to be associated with such firms and they work hard to enable the organization achieve its objectives. (Brown and Dacin, 1997; Turban and Greening, 1997). Generally, employees would rather work for a good citizens and contributes to the welfare of society (Turban and Greening, 1997).

## **2.9 Social Exchange**

Aside organizational identification, the reactions of employees to the firms CSR initiatives could be governed by reciprocity, which is defined as a pattern of mutually contingent exchange of gratifications (Gouldner, 1960). It has been argued that, a firms philanthropic donations are likely to affect the dynamics of social exchange not only with the recipients of such actions, but also within the philanthropist own social group. Porter and Kramer (2006) explain that CSR activities are not limited to philanthropic activities and over many extra-role behaviors of corporations which target various stakeholder groups (Barnett, 2007). In instances where the intentions of firms is to target external stakeholders, the CSR activities can change the dynamics of social exchange within firms. The sense of obligation of the firm is a moral norm that is based on the assumption that employees should help those who have helped them. In certain circumstances, employees may reciprocate the positive treatment they get from their employers. In fact, the obligation to repay is dependent on the value the employees places on the CSR actions as well as the firms motives and resources.

Research in the past has shown that employees perform pro-social behavior when - organizational practices that has a favorable justice perceptions and also incur a sense of obligation to recompense the firm in a manner befitting a social exchange relationship (Zellars and Tepper, 2003). Conversely, several studies have proved that employees, who feel underpaid, tend to steal the property of the firms the work so as to counteract the firm's perceived unfairness (Greenberg, 2002).

Many researchers have identified three forms of exchange (Flynn, 2005; Molm, Lawler, 2001; Peterson and Takahashi, 1999). Negotiated exchange is made up of two entities where - the terms of the exchange are openly discussed and the giving and receiving of benefits are direct and often immediate (Flynn, 2005). The restricted exchange is about the discrete transactions and bilateral flows of benefits between partners (Molm and Cook, 1995) whiles the reciprocal exchange is made up of two actors who benefit each other by unilateral acts of anonymous giving and where the rate of exchange is established only over time (Molm, Collett, and Schaefer, 2007). The generalized exchange is an indirect and impersonal form of social exchange that involves three or more members of a social group. The exchanges requires that repayment of a kind deed, but not necessarily by the person who originally received it, or to the original giver (Bearman, 1997; Molm and Cook, 1995).

## **2.10 Configurations of Social Exchange and Organizational Identification**

Theory suggest that both social exchange and social identification can explain the influence of CSR on employees. There are four configurations of Social Exchange and level Organizational Identification (SE/OI configurations) when the high versus low organizational identification are crossed with the three forms of social exchange thus, negotiated, reciprocal and generalized.

### **2.10.1 SR influence on Organizational Identification and Social Exchange**

- a. Employees' CSR perceptions: The CSR actions of corporate entities can influence the attitudes and behaviors of employees only to the extent this stakeholder group perceives and evaluates them (Barnett, 2007; Bhattacharya and Sen, 2004). Hence, the perception of employees' of CSR are the main variable that mediates the influence of CSR actions on employees (Rupp et al., 2006; Schuler and Cording, 2006). Carroll (2008) identified four levels of economic, legal, ethical and discretionary CSR. There are studies that assumes that managers, consumers and/or employees perceptions of CSR would be structured in accordance with the four categories (Maignan and Ferrell, 2001; Peterson, 2004).
- b. CSR Perceptions Antecedents: Several psychological factors tend to affect employees' socially responsible attitudes and behaviors (Schneider et al., 2004). There are three antecedents that has the tendency to shape how strongly CSR actions influence employees CSR perceptions. They are awareness about CSR, individual beliefs in CSR or CSR orientation of employees, and the fit between organization and employees values. Researchers in consumer behavior have found that, CSR is likely to impact on employees' attitudes and behaviors only if they are aware of the actions (Bhattacharya and Sen, 2004; Schuler and Cording, 2006; Sen and Bhattacharya, 2001). The knowledge about past CSR actions and communicating them inside the firm influences employee's perceptions.

### **2.10.2 CSR Influence on Employees through SE/OI Configuration Change**

Organizational identification and social exchange processes are often influenced by CSR; therefore, it can be inferred that there are specific configurations of Social Exchange and Organizational Identification (SE/OI) that CSR also influences. The following are ways of how CSR tends to influence SE/OI configuration (Mediated Impact), workplace attitudes (trust, organizational commitment and job satisfaction) and behaviors (OCBs and workplace deviance).

- a. CSR Mediated Impact on Trust: There is an assumption among employees that their organization is trustworthy if they identify with a social responsible firms. As organizational identification is about the perception of oneness or belongingness to a particular firm as well as to the emotional investment attached to organizational membership. It also has the tendency to enhance the

propensity of an individual to trust the organization and its members. When there are acts of trust, it provides organizational members with an opportunity to communicate to others the symbolic value attachment they have to their organizational identity (Kramer, 2001). There is an interaction between the various forms of social exchange with organizational identification in predicting organizational trust.

The trust that exist between partners is likely to develop when exchanges occur without explicit negotiations or any binding agreements (Molm and Cook, 1995), and it is dependent on how partners respond to opportunities to exploit or reciprocate. Because there is no way to assuring an appropriate return for a favor, the social exchange concept requires trust in others to discharge their obligations (Blau, 1964). Hence, reciprocal exchanges often produce stronger trust than negotiated exchanges. The terms of negotiated exchanges obvious to all in advance and guaranteed, therefore trust is unnecessary. On the other hand, generalized exchanges tends to encourage trust because it is associated solidarity and a belief that others will stick to a collective norm of cooperation (Lawler, 2001; Molm and Cook, 1995).

- b. CSR Mediated Impact on Commitment and Satisfaction: Organizational identification and organizational commitment tends to overlap, yet they are very distinct (Riketta, 2005; Van Knippenberg and Sleebos, 2006). Organizational identification is a very important predictor of commitment (Meyer and Herscovitch, 2001) and tends to relate positively to job satisfaction (Riketta, 2005). The degree to which the employees identification with, and development of a sense of belonging to an organization is determined by the strength and length of their membership (Dutton, Dukerich and Harquail, 1994). A study by Molm et al. (1999) have shown that, there is a strong and close relations evolves when exchanges are reciprocal, rather than negotiated. According to Molm et al. (2007) in reciprocal exchanges, actors benefit others by anonymous unilateral acts of giving where the rate of exchange is established only over time.

According to Lawler (2001) social exchanges produce emotions which are internally rewarding or punishing, and generate strong affective ties to individuals rather than organizations. Due to fact that emotional expressions are stronger for reciprocal than negotiated exchanges (Molm et al., 1999; Molm and Cook, 1995), organizational commitment and job satisfaction tends to be stronger for reciprocal exchanges and even for low identifiers. Exchanges that generalized tend to be indirect, therefore actors who give benefits do not necessarily receive benefits from those same actors. There is a higher level of uncertainty than in reciprocal and negotiated exchanges. Studies have shown that commitment is stronger when uncertainty is high (Molm and Cook, 1995). Frequent generalized exchanges tends to reinforce a positive effects that will be partially attributed to an organization which represents a context for exchange. The exchanges that generalized may help to

build a collegial environment that promotes commitment to an organization as well as job satisfaction.

- c. CSR Mediated Impact on OCB: When a person identifies with an organization, the values and interest of the organization are integrated in people's self-concept (Dutton and Dukerich, 1991). The collective interest of the firm becomes the self-interest, and individuals are motivated to adopt the goals of the organization and their actions are conducted in the interest of the organization (van Knippenberg and Sleebos, 2006). Employees who have a strong identification with organizations consider the organization's successes and failures as their own. Such employees are likely to engage in behaviors that will help the organization achieve its goals. This is because doing so positively impacts on the organization, and by association, on themselves (Dutton and Dukerich, 1991).

Studies have suggested that a high organizational identification is associated with cooperative and organizational citizenship behaviors (Riketta, 2005; Tyler and Blader, 2000). Some other studies have shown that employees who believe the organization's actions can be beneficial to them often perform above and beyond formal job expectations (Eisenberger, Armeli, Rexwinkel, Lynch and Rhoades, 2001; Organ, Podsakoff and MacKenzie, 2006). Favorable treatment that results from CSR practices tends to create an obligation to repay the favors in terms of OCB. Indeed, the sense of common identity, cohesion, and its effect on employee's behaviors, tends to differ according to the form of exchange (Flynn, 2005). Employees use exchanges to evaluate their relationships with the organization when there is a high organizational identification.

In reciprocal exchanges, the employee act to benefit others without knowing whether, or when, it will be reciprocated (Molm, Peterson and Takahashi, 1999). However, in negotiated exchanges, the individuals and the organizations negotiate an agreement based on direct and strict reciprocity. There is a tendency for the negotiated exchanges to increase conflicts of interests between actors, thus making exchanges competitive and with conflicts (Molm et al., 2007). Therefore, it is expected that reciprocal exchanges should have stronger cohesion and solidarity than negotiated exchanges. In times when organizational identification is low, giving behavior becomes important, because it provides internal rewards in terms of pride, as well as future benefits (Molm et al., 1999; Molm et al., 2007).

The development of reciprocal exchanges occur when actors are willing to trust their organizations and accept short-term costs and uncertainty. Therefore CSR practices can change negotiated relations into reciprocal ones. When employee's identification with organizations are high, organizations are less likely to be perceived as separate psychological entities. Such reciprocal exchanges are associated with trust, commitment and positive affect toward an exchange partner (Molm et al., 1999). According to Lawler (2001)

generalized exchanges are useful for fostering helpful environments and further enhance collective solidarity and altruism to the extent that it will enable others to discharge their obligations to the enrichment of society rather than for their exclusive narrow self-interest (Ekeh, 1974). Due to this, reciprocal and generalized exchanges should strengthen organizational identification on OCB in CSR practices. Also, it reinforces a collective norm of unilateral giving and concern for the well-being of others (Flynn, 2005; Lawler, 2001; Molm and Cook, 1995).

- d. **CSR Mediated Impact on Deviance:** Workplace deviance refers to voluntary behavior that violates important organizational norms and tends to threaten the organizations well-being of an, its members, or both. Deviant behaviors are exhibited by employees and they respond aggressively when organizational acts threaten their self-esteem or identity (Aquino and Douglas, 2003; Bies and Tripp, 2005). Bies and Tripp (1996) provided a linkage between organizational injustice with publicly denigrating one's own organization and stated that employees may take revenge publicly in order to restore their own damaged image. An investigation by De Cremer (2006) showed that when organization acts unethically, high identifiers exhibit higher levels of disappointment and anger than low identifiers.

## **2.11 Regulatory institutions and CSR**

The perception of CSR as an externalities reinforces the belief that CSR is an activity which is not directly dictated by markets. Externalities are usually handled by government regulations which either directly limit the organizations discretion or impose taxes (provide subsidies) that make firms internalize true social costs and benefits of their actions. The focus of CSR is on those behaviors that are neither prescribed by markets nor government, but rather presents a private alternative to conventional government regulation of externalities.

Some authors are the view that laws and regulations are imperfect tools: they are “incomplete contracts” and tend to leave multiple gaps where meaning of the law remains unspecified. Furthermore, laws and regulations are seen as indiscriminate and thus “blunt” instruments that tends to ignore essential realities on the ground. Therefore, the two are captured by vested interests, including regulated industries and firms, and, while they should be serving the public, they often are turned into sources of rent. Their administration could be costly and ineffective; and laws and regulations can also be delayed. In the view of Husted, de Jesus Salazar (2006), the weaknesses of laws and regulations could make alternatives or options of maintaining order in society have a competitive edge.

The work of Ronald Coase (1960) shows that private alternatives to regulation in the airline industry has come to the fore in economic debates. The famous theorem by Coase (1960) points to the fact that lower transaction costs could make the involved parties - those that emit externalities and those that are affected – to engage in private negotiation mutually acceptable and (Pareto) efficient solution that renders

government involvement unnecessary. From this perspective CSR is considered a as the implementation of a modern idea that makes it possible to settle externalities through bargaining between firms as represented by the relevant shareholders. This will help save the agency problem stakeholders (regulators) on one side and management on the other.

In the view of Coase (1960) bargaining does not only coordinate their actions but also it makes it possible to share gains of firms through side payments. With CSR the latter is in the form of corporate social investments which is known as remedies for possible transgression against stakeholders' "natural rights". Usually the side payments is in one direction - from the company to stakeholders, and not vice versa. In some instances, the bargaining that underlines CSR are explicit and happens the form of consultations, roundtables, public hearings, stakeholder forums etc. which results in obtaining a "social license to operate", that is a consent of the society and endorsement of the *modus operandi* of the firm (Porter and Kramer, 2006). The "social license" could be secured implicitly in instances when the self-restraint and social investments win the tacit approval stakeholders'.

Private settlements is an alternative to government regulation, but not necessarily a superior one. Over a period of time, societies have used different means to maintain order in the economy (Djankov et al, 2003). In traditional societies, the use of private orderings prevailed. The private orderings was based on mutual agreements, reputation, social networks among others, but earlier the use of litigation was an alternative institution which proved to be more conducive to economic development (Greif, 1994). The rise of industries and concentration of production and wealth was a challenges to fairness and effectiveness of the justice system. That gave an opportunity to government regulation as a better way for protection from influence and capture (Hawkins, 2006).

Over time, there has been a comparative advantages and disadvantages of CSR over institutional alternative. They tend to differ from society to society. These variations and change are used to map, explain and assess observed CSR models and patterns. The costs and benefits of CSR vis-à-vis regulation are affected by the economic and social structure, political and cultural tradition, working of government and legal system, and overall institutional setups and path dependencies.

If the regulations of government is to effective, it is dependent not only on the *complexity* of problems that regulation is to address, but also on the *capacity* of regulatory bodies to handle such problems. When the regulatory issued are complex in nature and capacity of the regulatory body is weak, the better, all other things being equal, are the chances of CSR to serve as a viable alternative. In developing and transitional countries, the regulation by is effective when it deals with relatively straightforward issues which require simple regulatory tools. Informational asymmetry usually complicates the role of regulators. When this happens, the role of the regulator wrongly targeted, could be misguided, could unnecessarily suppress market incentives or create rent at the expense of the society (Laffont and Tirole, 2002). This can cause a significant "collateral damage".

One of the factors that favors CSR over regulation is informational asymmetry. This is because the firms and relevant stakeholders in the airline industry are better informed than the government of the nature of the problem and relevant facts of the matter. Therefore they are in a better position to directly handle such problems. The states capacity to regulate is of equal significance. It includes the ability of the state to choose the appropriate regulatory tools, pass necessary government decisions in a timely manner as well as implement relevant decisions in a professional and impartial manner. It requires adequate regulatory and policy-making expertise; well-functioning policy-making process; a reliable and readily accessible dispute resolution system; transparent and accountable government; and a number of skilled and duly motivated personnel. This is particularly a challenge for many countries, especially the developing countries.

It is also relevant to explore the allocation of regulatory prerogatives between the various levels of government. Most the issues that borders on regulations are local in their nature, consequently, the regional and municipal governments tend to have two advantages over central authorities in handling such matters (Oates, 1972). Firstly, the various subnational governments could customize the regulatory interventions to suit the needs and conditions of various localities. When this happens, the national government could concentrate on choosing standardized policies that would be accurate “on the average” and still significantly deviate from the requirements of specific regions. Secondly, the governments at the subnational are “closer to the ground”, therefore they are in a better position to handle informational asymmetries than the central authorities. Therefore, when regulations are excessively centralized, it makes the case for CSR stronger, especially because the policies and investments made into CSR fundamentally deal with local matters.

## **3. FINANCIAL (INTANGIBLE) ASPECT OF CSR**

### **3.0 Introduction**

This chapter reviews literature on the relationship between CSR and the financial performance of firms. It looks at the concept of CSR as an intangible asset and links it with the firms' performance.

### **3.1 CSR and financial Performance**

The CSR concept and stakeholder theory are fundamental to the study of business and society (Maron, 2006). Ruf, Muralidhar, Brown, Janney and Paul (2001) emphasized the need for caution with respect to the maturity of research evidence. Previous researchers have acknowledged that the changes that occur in economic development, national or local security, and expectations of society could have an effect on how social performance is defined and how it involves stakeholders and thus the performance of firms. The understanding of the implications of CSR is very necessary. Lately, many firms have been encouraged to engage in socially responsible behavior for both moral and practical business incentives (Maron, 2006). In fact, from an ethical perspective, the study of CSR is making way for a more economic approach or at least a more business-integrated approach (Doane, 2005; Gauthier, 2005; Stormer, 2003).

The concept of CSR has a long tradition in the analysis of business research (Garriga and Mele, 2004). Friedman (1970) made a statement that 'managers' only responsibility was to increase shareholders' wealth has widely shaped the focus of research into CSR activities of firms. Friedman (1970) focused on a very distinct aspect of corporate and managerial responsibility. Because manager of firms are employees of the stockholders, their responsibility is to conduct the business to meet the satisfaction of their owners and make profits for the company in accordance of society. Freeman (1994) argued that social performance is needed to attain business legitimacy. Managers have a fiduciary responsibility not only to shareholders but also to all relevant stakeholders. The argument by Freeman led to an increase in the research interest on the link between social responsibility and financial performance of firms. Freeman (1994) suggested that there is a positive relationship between the two variables in the long run. The main idea in stakeholder theory is that the success of the firm is dependent on the ability of the firm to manage its relationships with key groups, such as financiers and shareholders, as well as customers, employees, and even communities or societies.

There are a number of benefits that firms can derive from CSR, however, financial success is the most crucial for shareholders. From a business perspective, some scholars have argued that CSR can increase the competitiveness of a company (Knox and Maklan, 2004). Researchers have explored the relationship between CSR and financial performance, and have found mixed results in terms of the benefits. In the view of Friedman (1970), there is a negative relationship because CSR involves costs and therefore worsens a firm's competitive position. However, a decade after



Arlow and Gannon (1982), conducted seven empirical study and found that the economic performance of firms is not directly related, in either a positive or a negative way to social responsibility.

Margolis and Walsh (2003) studied the relationship between social and economic performance. They concluded that there is a positive relationship between CSR performance and corporate financial performance (Margolis and Walsh, 2003). Others studies have focused on how to select an appropriate method for the measurement responsible corporate performance. All the methods for measurement have some limitations because they either have only one dimension (thus they take into consideration only one or two areas of social performance and ignore the others) and therefore may not properly reveal the overall level of the CSR of firms in the airline industry, or there are difficulties in applying them to a wide range of industries (Heal, 2005, Knox and Maklan, 2004).

One of the main issues regarding the link between CSR and financial performance is the causality between the two variables. One of the views is that when firms have a good financial performance, there are funds available for investments that will improve their environmental as well as social performance. The other viewpoint is that, when a firm has a good environmental and social performance, it will result in good financial performance because of the efficient use of resource and commitment gained from relevant. In a study by Scholtens (2008), it was found that financial performance generally results in social performance more often than the other way around. However, Waddock and Graves (1997) explains that the presence of a simultaneous relationship in a kind of “virtuous circle.”

In spite of the studies already indicated, there is still little explanation on the relationship between CSR and financial performance within the airline industry. This is mainly because many of the studies on CSR in the airline industry are constrained in their descriptions of socially responsible actions that firms in the airline industry could implement to make them consistent with a CSR agenda of the relevant stakeholders. This could be as a result of the absence of a common framework and a systematic method to objectively evaluate individual CSR activities. There are various methods that have been used by researchers to measure the connection between financial-to-CSR. Some of the methods include social responsibility indexes, and content analysis of documents, forced choice survey instruments, behavioral and perceptual measures, and case study methodologies resembling social audits. Edwin (2006) observed that such a variety in measurement is not only as a challenge, but also it provides an opportunity because it is not difficult to find an aviation-related organization does not have some type of programme in CSR.

There has been empirical studies on the relationship between CSR and financial performance that have suggested that performance is indeed a key driver for the adoption of CSR (Bansal and Roth, 2000, Haigh and Jones, 2006, Juholin, 2004). Most of the empirical studies tend to support the positive relationship that exist between CSR and financial performance (Barnett and Salomon, 2006, McWilliams

and Siegel, 2001, Griffin and Mahon, 1997, Luo and Bhattacharya, 2006, Goll and Rasheed, 2004, Ruf et al., 2001, Waddock and Graves, 1997). The recent literature reviews on the meta-analyses by (Wu, 2006, Allouche and Laroche, 2005, Orlitzky et al., 2003), and the bibliometric analyses by (De Bakker, Groenewegen and den Hond 2005) all point to the conclusions of on the relationship between CSR and financial performance.

The empirical literature review in this study finds evidence that shows that there is a positive relationship between CSR and financial performance and, in some instances, a positive relationship between the measures of reputation and financial performance. Beurden and Gossling (2008) reviewed several empirical studies and found that sixty eight percent of the reviews support a positive correlation between CSR and financial performance. This implies that being socially responsible can bring benefits to firms though the nature of the relationship between CSR and performance still remains unclear (McWilliams and Siegel, 2001, Porter and Kramer, 2006).

The discussions on CSR dwells on issues that are relevant for modern economy and their consequences for individuals, societies, and organizations. However, the debate on CSR is not a new one, neither is it a fad (Wu, 2002). The concept of CSR actually comprises of the notion that organizations have to meet the expectations of society (Gossling and Vocht, 2007). The concept of CSR is the answer to the uncertainties within society that firms have to cope within the present dynamic, global, and technological social contexts. All over the world, there is increasing pressure for corporate accountability (Waddock, 2004). This means that there are legal, social, moral, and financial aspects of the CSR. The restrictions by government on the social conduct of firms are increasing, even in times of trade liberalization. The demands of customer are the increase with increasing transparency of markets. Additionally, customers are demanding for sustainable products (Gauthier, 2005).

Many investors are not only looking at the financial performance in a firm's portfolio, but they also value the way the firm meet their social responsibilities (Barnett and Salomon, 2006). These developments shift the attention of corporate entities from a mere financial orientation to a much broader one. When the entire society decides that firm have responsibilities toward stakeholders, we can expect these firms to be held accountable for their social performance (Gossling, 2003). This is applicable to the actions of the firms', as well as to the outcomes that result from these actions (Freeman, 1994).

Past reviews shows that there is no consensus on exactly what should be included in the social responsibility of firms (Frederick, 1994; Griffin, 2000). Some authors have described CSR as the obligation of organizations to be accountable for their environment and for their stakeholders in a manner that goes beyond mere financial aspects (Gossling and Vocht, 2007). One definition which puts the concept of CSR in a broad yet understandable perspective was provided at the World Business Council for Sustainable Development. CSR was defined as "*the continuing*

*commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as of the local community at large*” (Holme and Watts, 1999). Another definition of CSR which has been used by many researchers is that provided by Carrol (1979): *“The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”* (p. 500).

CSR is therefore a relevant concept that appears at different levels within and outside organizations and although difficult to measure. According to Wood (1991) there are three principles of CSR which each operate on a different level. First is the principle of legitimacy which operates on an institutional level. The second principle is public responsibility, and that operates on an organizational level. The third principle focuses on managerial discretion. Managerial discretion operates on an individual level. Goll and Rasheed (2004) explained that acting in a socially responsible way is a consequence of a deliberate managerial choice and it results from internal decision processes, which are of a complex nature. Corporate Social Performance is a way of making CSR applicable and putting it into practice (Maron, 2006). It must be stated that the concept of CSR is not a variable and therefore impossible to measure. However, CSP on the other hand, though very difficult to measure can be transformed into measurable variables. There are different approaches used in the measurement. All the relevant approaches are multidimensional constructs that measure organizational behavior across a wide range of dimensions. The dimensions include investments in pollution control equipment, sustainable investment and internal behavior. It could also include a wide range of processes, such as relationships with customers, treatment of women and minorities and outputs such as community relations and philanthropic programs (Waddock and Graves, 1997).

CSP provide an assessment of a firm’s general stance with regard to a complex range of concerns relevant to the social field (Graves and Waddock, 1999). Carrol (1979) explained that the social responsibility of firms goes beyond economic and legal concerns, which is therefore an additional responsibility as an aspect of CSP. There were two other aspects that were included in the study. Firstly, there is the enumeration of the issues to which the social responsibility is tied and which are subject to change and differ between industries. Secondly, there is a need to consider the specification of the philosophy of response, which is best seen as a social responsiveness. These three aspects are important because they are interrelated and further help to build the linkage between social responsibility and social performance. According to Wood (1991, p. 693) CSP is *“a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm’s societal relationships.”* This definition makes social performance suitable for an objective measurement. Therefore, CSP can be seen as a concept that is not only integrated into doing business, but also, it must be abstracted from business

operations in order to understand the relationship between business and society. The concept of CSP is very useful in providing a consistent framework exploring the relationship between business and society (Wood, 1991).

In moral philosophy, one of the oldest questions is whether it pays to be a morally good person (Gossling, 2003). Likewise, within the context of CSR, one of the oldest and most important questions can be formulated as follows: “Social performance may be good for society, but does it pay?” (Brown, 1998). Theoretically speaking, moral behavior is financially and economically beneficial is not obvious to determine (Brown, 1998; Gossling, 2003). Due to the fact that CSP and CFP are broad meta-constructs, the differences in definitions makes the categorization of CSP and CFP difficult. Though there are varied approaches to the measurement of CSP and CFP, the different results of these researches can be compared if the comparison takes measurement differences into account (Griffin and Mahon, 1997). There are mixed results on the relationship between the two. Some studies on CSP and CFP show a positive relationship (Griffin, 2000; Maron, 2006; Orlitzky et al., 2003; Wu, 2006) while others found a negative relationships (Griffin and Mahon, 1997). However, according to McWilliams and Siegel (2000), most of the existing research have very significant empirical and theoretical limitations.

In a study by Frooman (1997) on the relationship between CSP and CFP it was revealed that firms that are socially irresponsible or engage in illegal activities end to have a decreasing shareholder wealth. The implication is that to be able to increase shareholder wealth, firm must be socially responsible and law abiding. Though there appears to be quite a high number of empirical research that has found a negative relationship between CSP and CFP, Roman, Hayibor and Agle (1999) reclassified empirical studies and came to the conclusion that there is actually a dramatic decrease in the number of studies that showed a negative correlation.

De Bakker et al. (2005) made an analysis of the research and theory development on CSR and CSP. Their results tend to support both progression and variegation of the field. De Bakker et al. (2005) provided evidence to show that CSR has become a strategic and managerial tool. They suggested that it would be beneficial for more in-depth analysis of different studies on the concept of CSR. A meta-analysis study by Allouche and Laroche (2005) on the relationship between CSP and CFP provided a conclusive results that CSP has a positive effect on CFP. Allouche and Laroche (2005) indicated that in spite of the apparent bias within the field, there is a possibility that there is a positive CSP - CFP relation. A recent study by Wu (2006) on the link between CSP and CFP with emphasis on the role of firm size as related to CSP found a positive relationship between CSP and CFP. This findings tend to affirm the notion that the costs involved in being socially responsible are low and that firms stand the chance of benefiting from socially responsible actions. Wu (2006) explain that the size of the firm has no visible effect on CSP or on CFP. Consequently, Maron (2006) unified the theory of CSP–CFP and indicated that his theory identifies two opposing forces that is CSR-related rewards and costs. This is

what in the view of Maron (2006) explains all the possible relationships between CSP and CFP.

A proper identification of the relevant factors that tends determine the relationship between CSP and economic performance may stimulate organizations to become more involved in issues of sustainability and CSR. Vogel (2005) is of the opinion that neither a positive statistical and even causal relationship between CSP and CFP could be guarantee that when firms invest in CSR, it will necessarily pay off. This is actually a central characteristic of every kind of investment. When there is a positive correlation between CSP and CFP, it points to the fact that investment in CSR is likely to pay off. It will affirm the fact that investment in CSR is not a waste of money for organizations.

Available information on relationship between CSR and CSP is inconclusive (De Bakker et al., 2005). The link between them has been studied extensively, but outcomes fail to be consistent. Davidson and Worrell (1990) provides three reasons for the lack of consensus existing in the field. They are as follows. First is the use of questionable social responsibility indexes, second is the poor measurement of financial performance, and third is the unsuitable sampling techniques. Ruf et al. (2001) explain the reasons for inconsistency is because of the lack of theoretical foundation, a lack of systematic measurement of CSP, a lack of proper methodology, limitations on sample size and composition, and a mismatch between social and financial variables. These reasons indicate that there is a need for an in-depth analysis of the CSP - CFP link and requires a more comprehensive investigation of current research.

### **3.2 Consequences of Corporate Social Performance**

In the analysis of financial consequences of CSR, there is a need to consider the differences in the measurement of CSP and CFP. This is because they can influence the outcome of the research (Orlitzky et al., 2003; Wu, 2006). Brown (1998) has observed that the inconsistency in the measurement of CSP causes problems for determining the relationship between CSP and CFP. Therefore, it is important to know the kind of measurement to be used in the different relationships.

Building a theoretical model requires the recognition of the different dimensions and the inclusion of multiple dimensions, if we are to have an appropriately representative construction (Allouche and Laroche, 2005; Waddock and Graves, 1997). The CSP concept is categorize into three namely:

1. CSP 1: This is made up of the extent of social disclosure about matters of social concern (Wu, 2006); also included is the disclosure measurement which is the analysis of corporate disclosures to the public (Orlitzky et al., 2003)
2. CSP 2: This is has to do with corporate action, such as philanthropy, social programs, and pollution control. The corporate action refers to concrete observable CSR processes and outcomes. Included in this are questionnaires sent to employees and managers because they directly reflect actions of the firm in question.

3. CSP 3: This refers to corporate reputation ratings and assumes that CSP reputations are good reflections of underlying CSR values and behaviors. There is evidence from research that indicates that there is a difference in the prediction of financial performance between market-based measures of CFP and accounting-based measures of CFP (Orlitzky et al., 2003; Wu, 2006).

The CFP concept is used to measure the Economic Performance of firms. It comprises of two categories. The first category is known as CFP 1 and it incorporates market-based measures such as stock performance, price per share, share price appreciation, market return, market value to book value, and other market based measures. The participants in the stock market determine the stock price of the firm, the consequent market value, and their decisions are based on their perception of past, current, and future stock returns (Orlitzky et al., 2003). However, this is influenced by social performance.

The second category is known as CFP 2 and it is used in the measurement of CFP by incorporating accounting-based measures such as profitability measures, asset utilization such as return on asset and asset turnover, and growth (Wu, 2006). The accounting-based measures is an indication of the firms organization's internal efficiency, which is also influenced by the firms' social performance.

Davidson and Worrell (1990) show reference for market measurements. They explain that it is virtually impossible to isolate CSR activities. Moreover market-based measurements for CSP tends to relate closely to shareholders' wealth. Interestingly, investors are mostly concerned with accounting-based measurements when they affect shareholders' wealth (Davidson and Worrell, 1990). In the view of Wu (2006) studies that are conducted with market measurements provide smaller relationship between CSP and CFP than studies that uses other measurements, such as profitability measurements, asset utilization, and growth. Wu (2006) considers the latter to be a better predictor of social performance than market measurements.

### **3.3 CSR pays**

He, Tian and Chen (2007) in their study sought to find out how non-market strategy can influence the performance of firms. Their study revealed a positive relationship. Their study made use of the CSP 2 and CFP 2 categories for measurement as well as the inclusion of bridging, buffering, and adaptive capability as moderators. Because all these variables influenced the relationship, they were therefore marked as confounding variables. The buffering and bridging variables can complement each other to bring improvement in the performance of the firm through adaptive capability and CSP. Buffering refers to the ability of the firm to influence and control the environment or insulate a firm from external interference whiles bridging has to do with the ability of the firm to adapt to its environment or to meet and exceed external expectations.

A study was conducted by Luo and Bhattacharya (2006) on the link between CSR and the market value of the firm, with the belief that customer satisfaction would

serve as a moderator found a positive relationship. The study by Luo and Bhattacharya (2006) used CSP 3 and CFP 1 categories for measurement. Because customer satisfaction plays a significant role in the relationship between CSP and CFP it was treated as a confounding variable. Barnett and Salomon (2006) researched into the divergent views on SRI and explored the relationship between CSP and CFP within mutual funds. Using the CSP 3 and CFP 1 categories for measurement, they found a positive relationship. Their study controlled for global funds because the globality of a fund had a negative impact on CFP. A study by Peinado-Vara (2006) on the role of CSR in Latin America revealed a positive relationship.

Furthermore, Schnietz and Epstein (2005) explored the financial value of CSR reputation during a crisis to see if the reputation of CSR reputation insulates the effect on an external shocks that is likely to harm a firm. They found a positive relationship using CSP 3 and CFP 1 categories for their measurement. The effect of CSP on CFP was weak when R&D was included as a control variable. An investigation conducted by Goll and Rasheed (2004) on the moderating role of environment on the relationship between CSR and firm performance showed a positive relationship. The research by Goll and Rasheed (2004) used CSP 2 and CFP 2 categories their measurement and found that size had a positive effect on CFP.

A study by Kumar, Lamb and Wokutch (2002) on the consequences of social behavior on stock market value found a positive relationship. They used CSP 2 and CFP 1 categories for measurement and there were no confounding found. Another study by Ruf et al. (2001) on the CSP–CFP link from a stakeholder perspective showed a positive relationship. They used CSP 3 and CFP 2 categories for their measurement and found that firm size, industry, and prior year's sales significantly affected the CFP.

A study by Carter, Kale and Grimm (2000) on the effect of environmental purchasing on firm performance found a positive relationship. They used CSP 2 and CFP 2 categories. In another study by Dowell, Hart and Yeung (2000) on the relation between global environmental standards and market value, it was found a positive relation. They used CSP 3 and CFP 1 and 2 categories. Graves and Waddock (1999) also studied the linkage between CSP and CFP while controlling for quality of management and found a positive relationship. They used CSP 3 and CFP 1 and 2 categories for measurement. Quality of management had a positive effect on CFP.

Furthermore, a study by Brown (1998) on the relationship between corporate reputation for social performance and stock market returns found a positive relationship. Brown (1998) used CSP 3 and CFP 1 categories for measurement. Another investigation was conducted by Judge and Douglas (1998) on the relationship between the level of integration of environmental issues into the strategic planning process and the financial performance of the firm and found a positive relation between CSP 2 and CFP 2. The size of the firm size was identified as a confounding variable for CFP, but appeared to have no significant effect. A

study by Stanwick and Stanwick (1998) on the relationship between CSP and three organizational variables, thus organizational size, financial performance, and environmental performance found a positive relationship. They used CSP 3 and CFP 2 categories for their measurement and found that size had a positive effect on CSP, and pollution emission a negative effect on CFP (Stanwick and Stanwick, 1998).

Russo and Fouts (1997) in their study on the relation between environmental performance and economic performance found a positive relation. They used CSP 2 and CFP 2 categories for measurement. However, the industry growth was used as a moderating variable of the relationship between CSP and CFP, because the connection is stronger in higher growth industries. Also, Waddock and Graves (1997) looked at the relationship between CSP and CFP and the direction of that causation and found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and controlled for the type of industry. Firm size as well as risk has a negative effect on CFP. Preston and O'Bannon (1997) studied the relationship between indicators of corporate social and financial performance and found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and there were no confounding variables. Hart and Ahuja (1996) looked at the relation between emission reduction and firm performance. Their study revealed positive relation when CSP 2 and CFP 1 and 2 categories were used. It was concluded that firms that have a higher level of emission reduction and pollution prevention will have better performance through different industries.

Furthermore Klassen and McLaughlin (1996) investigated the relationship between strong environmental management and improved perceived future financial performance. Their study revealed that there is a positive relation between CSP 2 and CFP 1. Also, the study showed that there is a significant positive abnormal stock returns after a positive environmental events. This therefore an indication of the perceived value of strong environmental performance. Pava and Krausz (1996) found a positive relationship when they used CSP 3 and CFP 1 and 2 categories for measurement. Furthermore, Blacconiere and Patten (1994) used CSP 1 and CFP 2 categories to analyze the relation between the environmental disaster and the industry-wide effects on the stock return. There was a positive relationship between the effects of social disclosure of the included companies on their stock return.

Herremans, Akathaporn and McInnes (1993) studied the relationship between CSR reputation and financial performance and found a positive relationship. The study by Herremans, Akathaporn and McInnes (1993) used CSP 3 and CFP 2 categories for measurement and found that the type of industry affected CSP. It also found that firms that have a high CSR reputation have low risk. Hence, the confounding variables in the research were industry and risk. The study by Freedman and Stagliano (1991) on the relationship between mandatory disclosures and the variability in response from investors gave a positive relation between CSP 1 and CFP 1 categories.



### 3.4 CSR does not matter

Van de Velde, Vermeir and Corten (2005) conducted on the profitability of socially responsible investment (SRI) strategies and found a positive, non-significant relationship. They used CSP 3 and CFP 1 categories for their measurements. However, no confounding variables were found. On the other hand Seifert, Morris and Bartkus (2004) investigated the relationship between the availability of slack resources and corporate philanthropy and investigated the relationship between corporate philanthropy and the profitability of the firm. The latter studies found no significant evidence. Seifert, Morris and Bartkus (2004) used CSP 2 and CFP 1 categories for measurement, however, there were a lot of control variables, such as ownership concentration, differentiation, and industry. These control variables had a significant effect on CSP. Furthermore, the size of the firm had a significant effect on CFP. In their study, ownership concentration was defined as the number of large-block owners while differentiation was defined as a differentiation strategy in the industry sector. However, average philanthropy was simplified as industry because it depends on the industry and thus measures the same.

Seifert, Morris and Bartkus (2003) studied the link between corporate philanthropy and financial performance and found no significant relationship. However, they used CSP 2 and CFP 1 and 2 categories for their measurement and found that size had a positive albeit very weak effect on corporate philanthropy. A study by Moore (2001) on the link between CSP and CFP of firms in the supermarket industry in the UK found that there was no significant relationship. Moore (2001) used CSP 3 and CFP 2 categories for measurement and found that there is a positive relationship between CSP and firms size as determined by the average turnover.

Studies by McWilliams and Siegel (2000) on the correlation between CSR and R&D and estimated the impact of CSR on financial performance found no relationship after the study controlled for R&D and therefore no significant relationship was stated. McWilliams and Siegel (2000) used CSP 3 and CFP 2 categories for measurement and R&D was treated as a confounding variable in the research. Balabanis, Philips and Lyall (1998) studied the assertion that social responsibility and economic performance are linked and found no significant relationship. They used CSP 3 and CFP 1 and 2 categories for measurement. It was revealed that firm size had a significant effect on both CSP and CFP as a control variable and was therefore included as a confounding variable. Further, Guerard (1997) studied the relationship between socially screened equities and unscreened equities in average return and no significant relationship. CSP and CFP 1 categories were used and there were no confounding variables.

Hamilton, Jo and Statman (1993) conducted a study on the relationship between the returns of socially responsible portfolios and conventional portfolios using CSP 3 and CFP 1 and found no significant relationship. In other words social responsibility factors have no effects on expected stock return or the cost of capital of firms. Another study by Arlow and Ackelsberg (1991) on the link between social

responsibility and financial performance within small firms found no relationship. They used CSP 2 and CFP 2 categories for measurement. Furthermore, a study by Brammer et al. (2007) on the relationship between CSP 3 and CFP 1 using stock returns found a negative relationship. Their study used industry as a control variable mainly because the differences between industries were significant, hence industry was seen as a confounding variable.

## **4. METHODOLOGY**

### **4.0 Introduction**

This chapter provides the methodology that was used in executing the objectives of the research. The chapter includes sections on the research design, research approach, the sampling technique, data collection methods and the statistical tools for data analysis.

### **4.1 Research design**

The purpose of research is distinguished into three main categories namely, exploratory, descriptive, or explanatory (Yin, 2003). Exploratory research enables a researcher to clarify and understand the problem at hand (Zikmund, 2000). It also enables researchers to gather information regarding the topic of interest. On the other hand, descriptive research provides researchers with the opportunity to answer questions in the nature of who, what, when, where, and how of a problem. It is used to determine the difference, and features of subgroups and its characteristics. As indicated by Saunders, Lewis, and Thornhill (2003), it is important for the researcher to have a clear picture of the situation from which they wish to gather information prior to the collection of data and that is the focus of descriptive design. Explanatory research is conducted to identify causal relationships among variables. According to Yin (2003), an explanatory research approach can be used in studies that explain procedures from a different perspective or situation. Taking into consideration the objectives of this study, it is more exploratory and descriptive although not exclusive. The research can also be seen as explanatory since it explores and finds out relationships among variables by answering research questions and drawing conclusions.

The exploratory descriptive design is utilized to survey views from managers and employees of airline firms. The use of the exploratory descriptive design will facilitate and make for flexibility in enabling the researcher to examine all aspects of the objectives. In this design the interviewee usually 'leads' the interviewer as data or information unfolds. Follow up questions and clarified concepts ensures that information collected is exhaustive of the topic of the dissertation. The exploratory design makes it possible to have an in-depth knowledge of the perceptions of relevant stakeholders in the various airline firms on the concept of CSR and how it relates to or implemented in their organizations. The flexibility and open ended process that comes with the exploratory method makes it appropriate to use especially because of the target population and the topic of this dissertation.

### **4.2 Multiple case study approach**

A multiple case study approach was used in the dissertation. A multiple case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, and Sjoberg, 1991). this research sought to provide a holistic picture of the relevance of CSR as an intangible asset. Stake (1995) indicated three kinds of

case studies namely: *Intrinsic* - when the researcher has an interest in the case; *Instrumental* - when the case is used to understand more than what is obvious to the observer; *Collective* - when a group of cases is studied. The multiple case study is appropriate for the dissertation topic as it will involve a comparison of more than one airline firm while at the same time seeking to understand the CSR practices which are usually not privy to ordinary people, except the internal stakeholders of airline firms.

Merriam (1988) explains that, the multiple case studies' unique strength is its ability to deal with a "*full variety of evidence, including documents, artifacts, interviews and observations*". "*The use of a multiple case study approach is determined by four factors: the nature of the research questions; the amount of control the researcher has over the variables under investigation; the desired end product; and the identification of a bounded system as the focus of investigation*" (Merriam, 1988). "How" and "why" questions are the most suitable for a multiple case study because the approach draws attention to what can be specifically learned from the single case. A multiple case approach is chosen because of the nature of the research which is to investigate one particular phenomenon (CSR) that takes into consideration events that occur at varying periods of time. Also, it allows for comparative analysis to be made on specific units.

### **4.3 Research approach**

Analysis of previous theoretical and empirical research were used in order to set up the research framework and elaborate on the structure for empirical research. All research questions that is derived from the objectives in this study is aimed at describing and developing a more detailed understanding within the area. Thus, the research objectives are in line with the multiple case study which is also an essential part of a survey. Overall, the research has two approaches: quantitative and qualitative, both of which have own objectives and methods.

#### **4.3.1 Qualitative Research**

Bryman (2004) defines qualitative research strategy as one that "can be construed as a research approach that usually emphasizes words rather than quantification in the collection and analysis of data." Qualitative research method in a research seeks to understand and identify the various dimensions of a phenomenon based on an in-depth observations and analyses. Often, it is focused on how various stakeholders view and understand the experiences and occurrences in the business world and construct meanings out of their experiences (Silverman, 2001).

Qualitative research is done through an in-depth research that explores the background and context for the purpose of analysis, conclusions and decision making. It is an exploratory research method and it involves using unstructured techniques. Qualitative analysis is more explicitly interpretive, creative and personal than quantitative analysis. In this research, it is assumed that, because the CSR practices and approaches of airline firms is very distinct and varies from place to

place, it can therefore not be reduced entirely to figures or numbers as in a case of quantitative research.

### **4.3.2 Quantitative Research**

Bryman (2004) defines quantitative research as a “*research strategy that emphasizes the quantification in the analysis and collection of data.*” Bryman (2004) again notes that quantitative research is more objective and focuses on imbibing the practices of natural science models with figures and mathematical equations. Unlike qualitative research, quantitative research method indicates that social reality is an external and objective reality and that society is static and not dynamic.

### **4.3.3 Triangulation**

In this dissertation, the quantitative and qualitative research design will be used. The use of both perspectives is suitable for the dissertation as it will make it possible to measure the CSR policies and organizational commitment and also quantify these measures for informed decision making. A combinational approach, also known as triangulation perceives phenomena from different viewpoints and in a sense leads to correct results. Qualitative methodology, therefore, provides an understanding of social realities, whilst quantitative methodology on gives statistical description and predictions (Maguire, 1987). Result attained through the use of the two approaches gives a more comprehensive coverage of a research topic of the dissertation.

Qualitative research is done through an in-depth research that explores the background and context for the purpose of reporting the findings as it occurs from the interviewees. Quantitative research deals with the measuring of a phenomenon and quantifying such measurement with figures or statistics. The aim is to collect detailed information through various data collection procedures over a sustained period of time. Qualitative methods offer an internal view which seeks to shed light on the why of an issue, bringing insights to more quantitative analysis and findings. Hence, “*qualitative studies have the goal of eliciting understanding meanings; where the researcher is the 'primary instrument' of data collection and analysis; it makes use of fieldwork and an inductive orientation to analysis, and findings that are richly descriptive*” (Merriam, 1988). The qualitative aspect of the research will be exploratory, explanatory and descriptive in nature and it will involve sampling views from respondents.

The quantitative aspect of the research involves the analysis of data on CSR practices of airline firms. The reason for linking qualitative and quantitative data here is to enable the confirmation or corroboration of data from different sources – a process that could very well be triangulated; also elaborating and developing analysis to provide richer detail; and additionally initiating new lines of thinking through attention to certain surprises and paradoxes and moving ideas around to provide new insights. Thus, the combination of these methodologies has the potential of expanding the scope of the research. In any sense, a more analytic

approach to understanding the various variables that comes to play in the formulation of CSR policies and its implementation is elaborated upon.

The strengths of qualitative research methods are derived primarily from its inductive approach, its focus on specific situations while the strength of the quantitative method is the deductive approach (Patton, 2002). Patton (2002) emphasizes that quantitative and qualitative methods are not simply different ways of doing the same thing, though they complement each other, hence, the concept of triangulation. Qualitative research method will be used to compare the views and behaviours of managers and employees of the sampled airline firms on CSR and organizational policies. Quantitative research method will be used to condense the data that will be gathered into a number of key attributes which are generally taken as indicators or variables in the hypothesis for testing (Miller and Brewer, 2003).

#### **4.4 Data collection methods**

The nature of any research problem requires a sensitive and logical approach to research design so that open access to the research site can be permitted. Usually this type of data collection process ensures a high level of internal validity as (1) interviews will form a major portion of data collected and (2) some data will be collected in the natural settings to reflect the reality of experiences to the subject matter (Guba and Lincoln, 1981). Data collection instrument and plan to this effect will be designed to help ensure that external validity. External validity involves the extent to which the findings of one study could be applied to other situations and therefore answers the question of how generalizable are the results of the research study. In the dissertation, both primary and secondary data were utilized in collecting data for analysis.

##### **4.4.1 Primary data**

Primary data is information that has been collected for a specific purpose from a primary source (Bryman, 2004). Primary data is collected specifically for a research. It is generated from in-depth studies or surveys. Each survey therefore is based on raw data, usually from interviews and questionnaire that is unique. The dissertation will be highly depended on primary data. Primary data will be used to gather information about the CSR practices of airline firms. This is necessary because organizational commitment towards CSR tends to vary considerably. The primary data collection method will be used to gather data through interview with some key managers, employees and other relevant stakeholders of airline firms in different CEE countries. An interview-guide will be used and the respondents will be able to answer freely and use their own words. It is possible in this method to ask follow-up questions if the answers from the members of the sample are not enough (Bryman, 2004).

#### **4.4.1.1 Interview questionnaire**

A large part of the information was collected through interviews questionnaire. The interview questionnaire is comprehensive enough to tackle all the aspects of the research objectives. The interview questionnaire was designed to collect information that will be used subsequently as raw data for analysis. The questionnaire will be semi-structured and was made up of both close ended and open ended questions. There were few guiding questions that brought out the salient issues for discussion. Interview sections were held with the managers of the selected airline firms. The in-depth interview which embodies the qualitative research aspect of this study was used.

The structured in-depth interview was capitalized upon in this dissertation because of the richness of qualitative responses it could elicit. It is usually not free flowing or determined by respondent's interests; it is focused on a specific issue or set of issues, and the questions guide the course of the interview. This type of research instrument proved excellent when standard information is required from all respondents, and the data is too complex to gather in a closed-ended manner. To this end respondents were allowed to express themselves in their own words, unfettered by pre- established categories, but their data could be codeable (Bauman and Greenberg, 1992).

#### **4.4.2 Secondary data**

In this research, secondary data were collected from various sources for use. According to Bryman (2004), "*secondary data is information that already has been collected for another purpose by persons other than the researcher in question*". Secondary data, also known as desk research data are gathered from various internal or external sources such as research journals, books, articles, trade associations, government departments, published reports exhibitions, online databases and the internet. It is usually of good quality, and it can therefore be useful for another purpose other than the primary reason for which it was gathered. In this dissertation, internal financial reports and review documents of past projects were reviewed for assessment on various CSR implementation policies and managerial processes. The financial statements of the airline firms were analyzed to see how CSR initiatives contribute to the financial performance of such firms.

#### **4.5 Sampling method**

In this research, the purposive sampling method was used. Purposive sampling is a non-probability sampling method where the researcher selects a sample with a purpose in mind and the sample is thus selected to include people of interest and exclude those who do not suit the purpose. This sampling technique is necessary for this research because the researcher would want to reach the target group quickly. This allows ease in the gathering of data given that a critical observation were used to identify the airline firms of interest. In effect, this type of sampling makes it

possible to select interviewees whose qualities or experiences permit an understanding of the phenomena in question, and hence are valuable. This is the strength of purposive sampling.

Instead of going for the typical cross-section data or a balanced choice, the researcher will be able to concentrate on instances which display wide variety – possible even focus on extreme cases to shed more light on the research objectives. In this regard it might not only be economical but it could also be informative in a way that conventional probability sampling methods cannot be. A justification for the use of the non-probability purposive sampling is that it comes from the notion that the research process is one of “*discovery*.” Lincoln and Guba (1985) describe this strategy as ‘emergent and sequential’. Here, the researcher follows a track of clues, which follows a particular direction until the questions have been answered and explained.

#### **4.6. Statistical methods for data analysis**

The following are the statistical methods that were used in analysing the data collected. The methods are categorized into two. The divisions are based on the nature of the objectives. Some objectives sought to find the relationship between two variables whiles other sought to establish if CSR investment has an impact on the financial performance of firms.

##### **4.6.1 Analysis of relationships between variables**

In this research, the regression and correlation analysis were the main quantitative research method for statistical analysis and hypothesis testing. The regression and correlation analysis is a statistical tool that is used to investigate the relationships or dependencies between variables. It must be indicated that, there are two types of regression namely linear and multiple regression. As a result of the nature of the research, thus, more than one independent variable, the regression and correlation analysis was used. The data on the variables of interest were assembled and the regression and correlation analysis estimates the quantitative effect of the causal variables on the variable that they influence.

Consequently, the “*statistical significance*” of the estimated relationships thus the degree of confidence that, the relationship is close to the estimated relationship were determined under the 95% confidence level or the 0.05 significance level. The null hypothesis is not retained when the p-value that is derived from the statistical test is less than the significance level  $\alpha$ , which in the dissertation is 0.05. That is

When  $p < \alpha$ ,  $H_0$  is not retained but  $H_1$  is accepted and  
When  $p > \alpha$ ,  $H_0$  is retained.

When the null hypothesis is not retained, then it can be concluded that the result is statistically significant.



Furthermore, the test for the significance of regression and correlation analysis was carried out. The dependent variables in the hypothesis were in accordance with the regression and correlation statistical function. In the nonparametric multiple regression and correlation analysis the predictor does not take a form that is predetermined but is constructed in accordance with the relevant data. The regression and correlation analysis is able to deal with a randomly large number of explanatory variables. The dependent variable is a function of several independent variables with a corresponding multiple regression coefficients, along with the constant term (Berk, 2003). Generally, multiple regression procedures will begin by estimating the function equation of the airline firm. The function equation is given us:

$$Y = b_1 * X_1 + b_2 * X_2 + \dots + b_n * X_n + c.$$

Where,  $b_i$ 's ( $i=1, 2 \dots n$ ) are the regression coefficients, which in multiple regression represents the value at which the criterion variable changes when the predictor variable changes simultaneously.

#### **4.6.2 Analysis of CSR (intangible asset) and financial performance**

It is assumed that CSR activities intervene in the assets of the airlines. These assets produce a value and, in accordance with their productivity, they generate earnings. The research studies how the ROE, ROS and ROA the airline firm behave in relationship to its CSR initiatives. This analysis was done with the annual reports of the selected airline firms over a five year period

## 5. DATA ANALYSES AND DISCUSSION OF FINDINGS

### 5.0 Introduction

This chapter presents the results of the data analysis. The findings from the analysis are interpreted and discussed with relevant empirical literature to draw relevant conclusions.

### 5.1 Background of Customers

The demographic and socio-economic background of respondents are important for research findings. Such information allows for the explanation of patterns and result arising from analysis of the data. In line with this, the following background characteristics were perused in this study. In all, there were 164 respondents (customers) who participated in the study.

#### Age distribution of customers

All respondents were aged 21 years or more. Forty-seven respondents were between the ages of 21-30, while 34 were between 31-40 years. Thirty-one respondents were in the age range of 41-50, with majority (52) of respondents falling between the ages of 51-60. The details are depicted in the graph below:

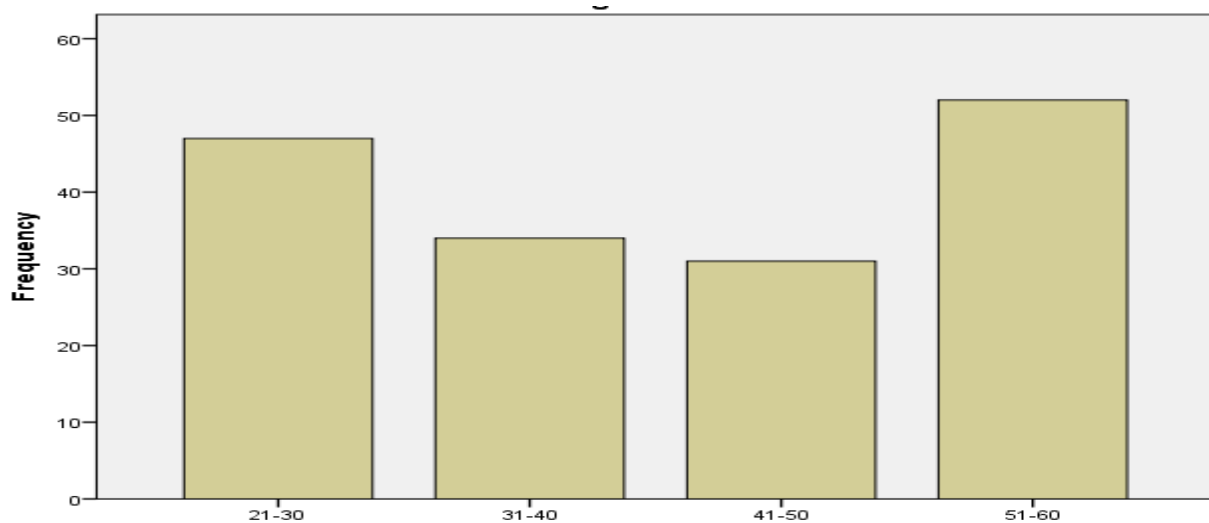


Figure 3: Age of respondents

Source: Survey data, 2015

#### Sex of respondents

From the graph below, it can be seen that as many as 117 respondents in the study were males with only 47 of them being females. The distribution is depicted in the graph below:

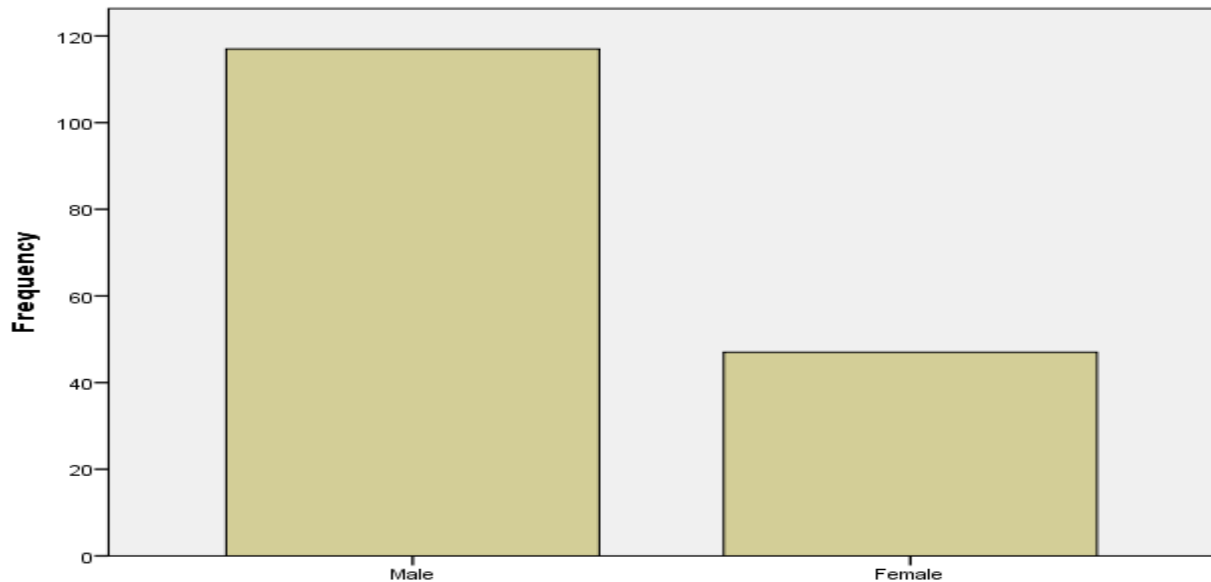


Figure 4: Sex of respondents  
Source: Survey data, 2015

### Educational level of respondents

The educational background of respondents were of interest to the researcher, hence it was explored in the study. From the data gathered, it was revealed that 27 and 89 respondents were doctorate and postgraduate degree holders respectively. Also, 40 respondents were undergrads while 8 respondents were high school leavers. The information presented in a graphical format in the figure below.

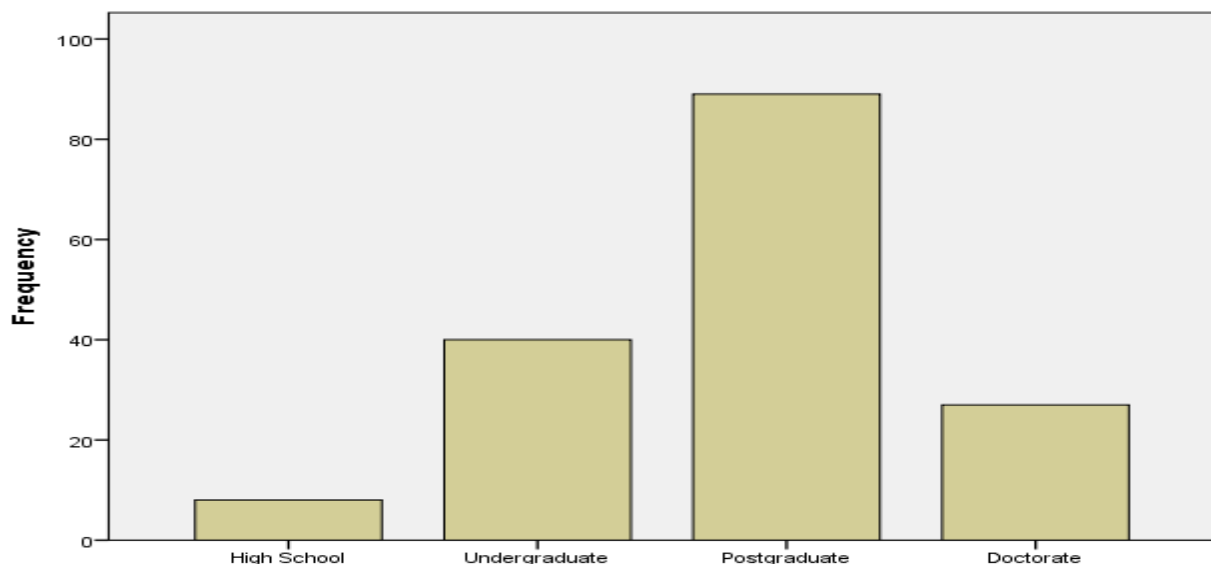


Figure 5: Educational level of respondents  
Source: Survey data, 2015

### Frequency of travel with airplanes

Respondents in the study provided information on the frequency with which they travel on airlines. The findings are shown in the figure below.

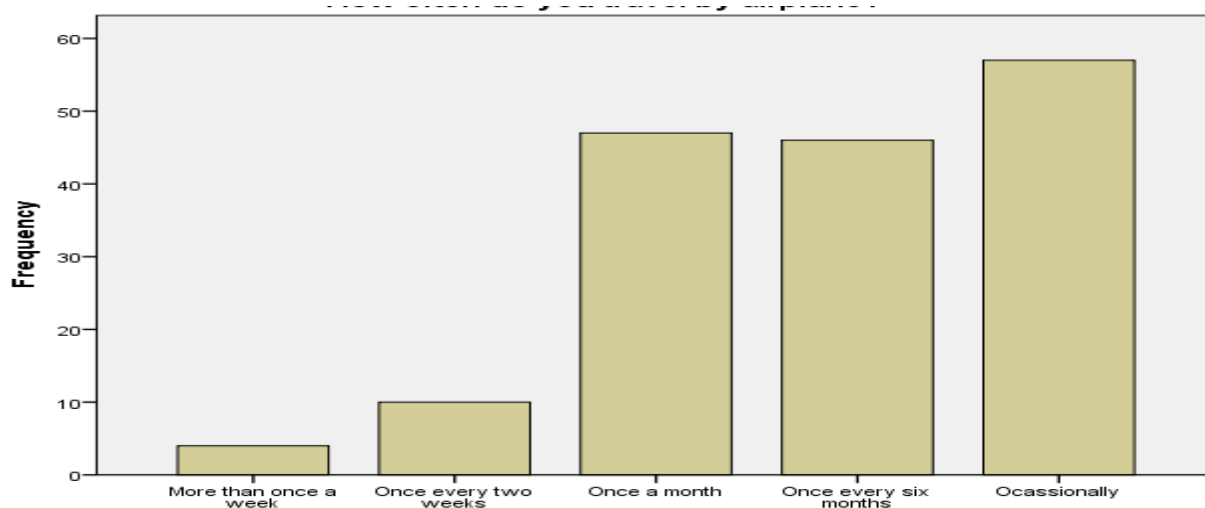


Figure 6: Frequency of travels with airline  
Source: Survey data, 2015

From the graph above, it is seen that the frequency with which the respondents travel with airlines were not regular. The distributions are as follows: more than once a week–4 respondents; once every two weeks–10 respondents; once a month–4 respondents; once every six months–46; and occasionally–57 respondents.

## 5.2 Background of Employees

Information from employees in airline firms within the Central and Eastern European region were also collected in this study. A total of 47 employees were drawn from different airline companies. The findings are shown the following sections.

### Sex of employees

From the graph, it is seen that majority of the respondents were males (36) whiles the rest were females (11).

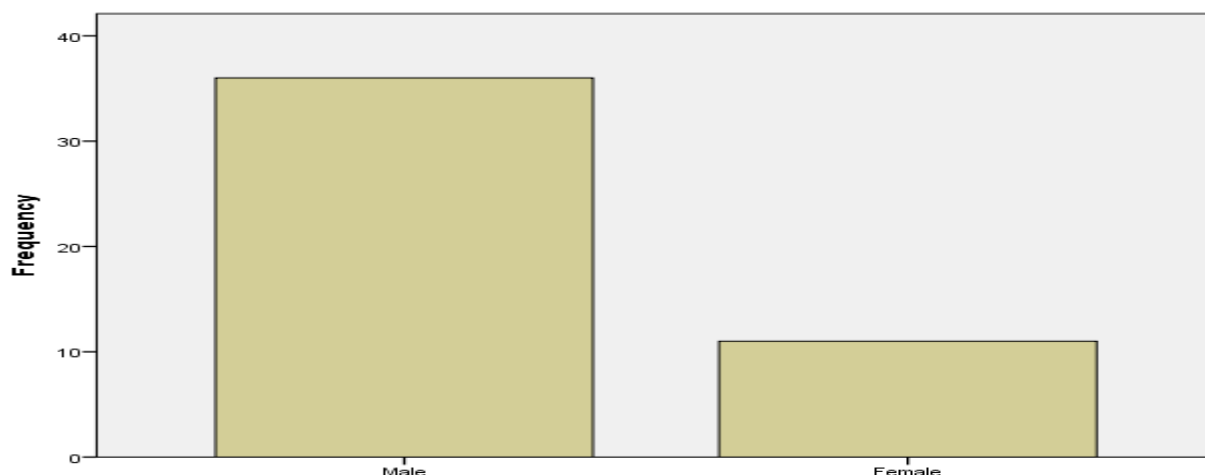


Figure 7: Sex distribution of employees  
Source: Survey data, 2015

### Age of employees

Regarding the age of the respondents, the findings were somewhat evenly distributed. The findings are as follows: 14, 12, 11 and 10 respondents were between the ages of 21-30, 31-40, 41-50 and 51-60 years respectively.

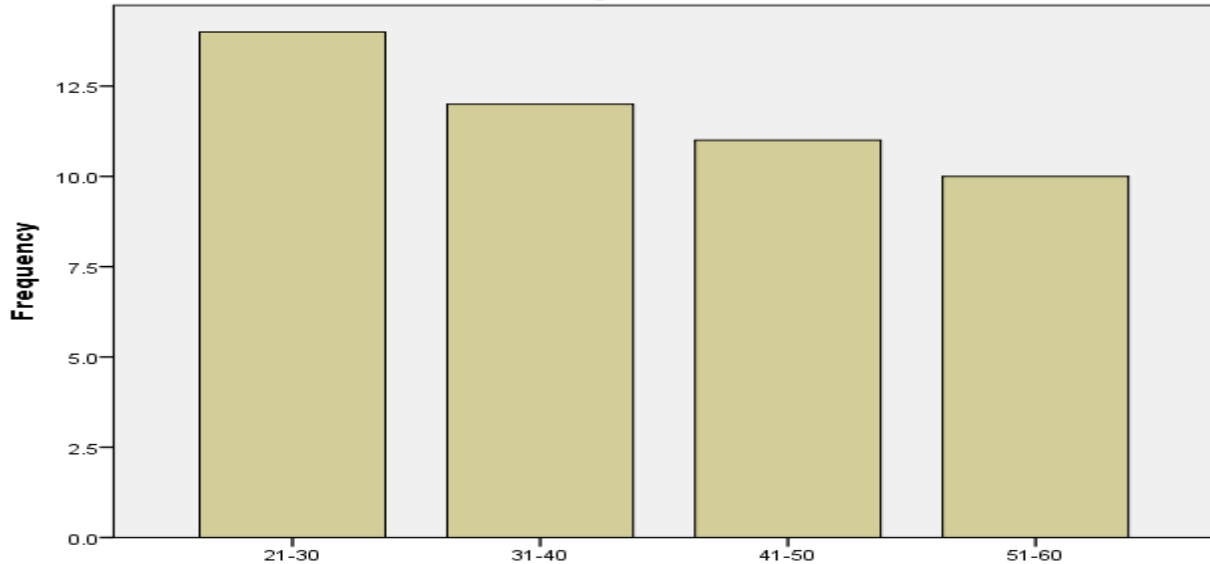


Figure 8: Age distribution of employees

Source: Survey data, 2015

### Duration of work for the airline firm

The study revealed that 5 respondents had started work within a year at their airline firm while 10 respondents had worked between 1-3 years for their current firm. The rest are as follows: 16 employees 4-8 years, 11 employees 9-20 years, and 5 respondents had worked for over 20 years with their current employers. The graph below provides a pictorial version of the distribution.

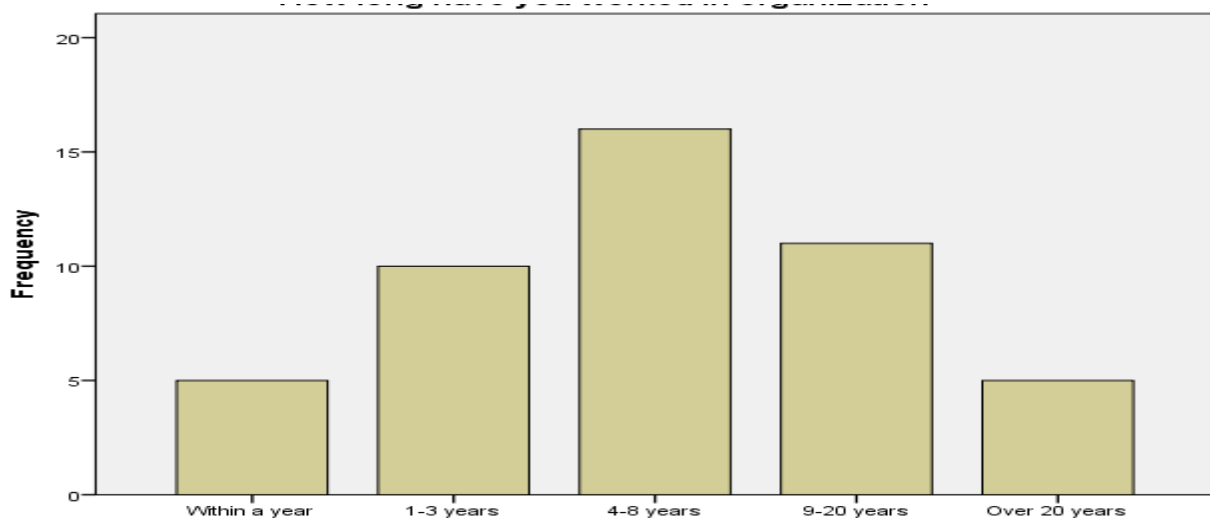


Figure 9: Duration of work for the airline firm

Source: Survey data, 2015

### 5.3 Background of managers

There were a total of 38 senior level managers interviewed. There were 33 males and 5 females. The distribution per their sex and age ranges are indicated in the tables below.

Table 1: Sex distribution of managers

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	33	86.8	86.8	86.8
Female	5	13.2	13.2	100.0
Total	38	100.0	100.0	

Source: Survey data, 2015

In terms of the age range, majority (36) of the managers interviewed were between the ages of 31-60. However, 2 respondents were between the ages of 21-30. The table below gives further details on the distribution.

Table 2: Age distribution of managers

	Frequency	Percent	Valid Percent	Cumulative Percent
21-30	2	5.3	5.3	5.3
31-40	10	26.3	26.3	31.6
41-50	11	28.9	28.9	60.5
51-60	15	39.5	39.5	100.0
Total	38	100.0	100.0	

### 5.4 Analysis of responses from managers

The managers of airlines were interviewed and the data received was analyzed qualitatively. The qualitative analysis was appropriate because it brings out the issues inductively in order not to lose out on relevant information. Furthermore, it is not every information that be reduced entirely to figures and the qualitative approach was the most appropriate in analyzing results from managers of airline firms. The analysis were done in accordance with specific questions which were asked based on literature review on the factors that are relevant in the implementation of CSR initiatives.

#### **The role of CSR as an intangible asset in the Airline Industry**

The study sought to find how managers view the concept of CSR. There are several definitions of CSR. For the managers, the definition of CSR is a formal process of relationship management through which companies engage with their stakeholders to align their mutual interests. It describes a decision-making process based on ethical values and compliance with legal requirements. Furthermore,

managers view CSR as a way in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (including shareholders, employees, customers, business partners, governments and communities). Beyond the definitions of CSR, it was seen from empirical and theoretical literature that CSR is considered as an intangible assets for firms in the airline industry. Managers are placed to indicate the benefits of CSR as an intangible asset in the Airline Industry. There were varied responses from the managers of airline firms. Some of the responses are summarized as follows:

*Goodwill, good image, reputation of the company and shows that the company is working with its stakeholders. It is also a sign of reputation management, a willingness to engage multiple stakeholders and quality of executive management. It provides a differentiator to business as usual in comparison to other companies. CSR supports the forecasted growth and sustainable development. Otherwise the growth will be restricted by governmental or international actions in the longer perspective.*

*If CSR is defined as "going green" and giving to charities, then this is mostly for PR and marketing purposes. Eventually it fosters goodwill, brand image. It places our firm at the apex of the market and among relevant stakeholders. Also, CSR is a condition to license to operate, but as an asset not easier to assess than reputation.*

*If CSR is defined as an honest and transparent attempt to conduct business in order to earn a profit in a manner that provides a desirable product and/or service while meeting generally the compensation and work/life balances needs of the workforce without being unsafe, unlawful or unethical or causing excessive environmental impact, then the result is a highly desirable employer and a company that is likely to succeed over the long-term which creates a virtuous circle.*

*Most people are employees, many people in aviation travel and aviation is a people business. The correct treatment /fair treatment of people is well known positively or negatively in the industry—airlines or business that are not CSR friendly, score negatively, especially for people elements and will be perceived negatively, by customers, suppliers, passengers.*

The aforementioned indicates that the airline firm's CSR strategy is built around the image and reputation that accrues to it for engaging in CSR. This is in line with the findings by the Industry Canada (2006) that looked at the benefits of CSR in Canadian industries. Therefore, marketing of CSR actions can be used from the past for building overall awareness as well as conveying corporate image (Bueble, 2008). Also, a better anticipation of risks and risk management in the environmental, social, economic, and legal sectors is one benefit assuring overall greater oversight concerning stakeholders and market movements (Industry Canada, 2006). The

airline industry just like any service-based industry in that people are its center. Because the airline industry is people centered, the building of a corporate brand and market for CSR actions is one way of conveying customers into buying a product or patronizing a service (The Centre for Sustainable Design, 2010).

**How does your organization develop its CSR strategies/plans to stay competitive?**

The study sought to find out how the airline firms develop CSR strategies/plans to stay competitive. The results from the managers were varied and spanned the CSR variables. However, the issue of conformance to global standards and the urge to be environmentally conscious dominated the CSR strategies of the various airline firms. Below are some of the responses that managers of airline firms reported:

*CSR as part of a company's overall plan, organizations can ensure that profits and increasing shareholder value do not overshadow the need to behave ethically to their stakeholders.*

*The use of eco certification, code of conduct, supplier audits and digital education for all employees ensures that our firm receives positive reviews and stays competitive in the industry.*

*We align our practices with the national goals and objectives. Strategies are put in place to deliver national and global based outcomes that benefit the majority or at least a significant component of the population.*

*Our airline tries to create avia-cluster: different local firms who supply our airline products and services with national style, local green foods and so on. Of course we have a long relationship with a local charity fund.*

*By training and employing most experience staff and flying new aircrafts. Also, we try to reduce emissions into the atmosphere which is a key issue in the aviation industry today. By doing so, our firm gets positive reviews ahead of the others. We also ensure that we provide adequate and relevant training to our employees on the best industry practices.*

*We have in built Go Green concept on all activities. Also, we benchmark within and across industry to look at best in class plans for activating corporate character. We study what the best companies/organizations are doing. We check in with professional organizations like the Arthur Page Society which studies this for our profession.*



*CSR is part of our corporate DNA and affects daily operations in many areas. A positive effect is shorter flight time, lowering emission from engine and hence lowering fuel cost.*

For CSR to contribute to the competitiveness of firms in the airline industry, they need to increase the awareness of their CSR initiatives and use them as marketing tools. From the statement from the managers of airline firms, it is seen that the firms are keen on marketing their CSR actions to stakeholders to strengthen their competitiveness in the market. The support of a local charity, collaboration with local producers of food, or employment of experienced staff are embedded in the CSR strategies of airlines. As indicated by Bueble (2008), CSR communication can be used as promotional techniques that are directed at providing information about CSR initiatives of firms while supporting indicators of competitiveness such as CSR-based brand identity and relational as well as behavioral loyalties or switching behavior. It is not enough to implement CSR activities. Rather such initiatives must be communicated to the relevant stakeholders to ensure the firm's competitiveness. Also important is how airline firms try to get approval of reputable regulators in the development of their CSR strategic plans. CSR among the airline firms are reflected operations in terms of the provision of shorter flight times, lowering emissions from engines, and hence lowering fuel costs.

### **In what form does the implementation of CSR activities in your company take?**

The study sought to find the forms of implementation of CSR activities for the various airline firms. It was found that CSR implementation by firms takes different forms. Airline firms have different options in their quests to engage in socially responsible initiatives. Below are comments from managers of airline firms on how they implement their CSR.

*Donations to charitable organizations, and free tickets to those flying abroad for medical treatments who cannot afford the fare. Liaison with various social integrations with local nonprofit and governmental agencies to provide environmental and social action projects.*

*Volunteerism, active on political issues, recycling/green team efforts, corporate philanthropy, triple-bottom-line reporting in an integrated financial/CSR report annually.*

*From supporting local businesses at destinations to engaging in projects to make operations more efficient.*

*Employment/placement of young people from workforce/local community on placements and work experience.*

*Support a Charity called Compass with over 105 Children and their mothers from abusive and poverty stricken circumstances. Our involvement spreads across food donations, financial support, and our employees donate their time to maintain premises and HR provides support as part of the upliftment program for mothers to help them reintegrate back into the working world, and or community in general.*

From the statements of the managers of airline firms, it was seen that the firms endeavor to build a corporate culture that guides implementation of their CSR. The forms of implementation constitute a combination of economic, social, and environmental actions (Alagse, 2010). The CSR initiatives of airline firms goes beyond good citizenship; they take on obligations to improve society's quality of life (Martin, 2008). The social quality of life includes but is not limited to support of charity, volunteerism, recycling, and other eco-friendly initiatives as well as reducing youth unemployment.

**How does CSR affect the corporate reputation of your firm in terms of how customers will perceive the CSR initiative?**

This study examined the effect of CSR on corporate reputation. This was done using the perceptions of customers of the CSR initiatives of firms. There were several responses from the managers. The following are some of the responses.

*CSR helps companies to become more resilient not just to climate change risks, but also to negative information about the company. In applying the CSR, will be more attractive to the customers and to the market, the company will have more customers, and more revenue.*

*In Russia, CSR is new conception so our customers perceive CSR initiative which support local communities directly and in tune with local/federal nationalistic mood.*

*Our work is mainly humanitarian so our CSR strategy really supports and reinforces our value proposition to our customers.*

*Positively—it is a growing expectation globally that organizations will have CSR frameworks in place and commonly forms part of the contract bidding process. Do well-win contracts!*

*It has positive impact on the company because most fliers prefer to patronize the airline. Consequently, the company's image improved and thereby leading to more sales.*

*Consumers want to know a company's character beyond their core business. They want to know how you "play and live" in the communities where you operate. They want to know you are conducting your business ethically and responsibly. The*

*customers will perceive the efforts the corporation is doing towards reducing the impacts of its activities in the environment and community. After doing all these, we expect a positive effect on our reputation: seeing us as a socially responsible company, increasing both trial and loyalty.*

Airline firms consider how customers perceive their CSR initiatives. They consider these perceptions as important in the development of their reputations in the market. A good reputation is achieved by how the firm "plays and lives" in its immediate environment. This strategy is in line with what many researchers (Fombrun, 1996; Roberts and Dowling, 2002; Podolny, 1993) have suggested are what determine a good reputation for competitive advantages over other firms. Such strategies endeavor to increase the performance of the firm. As indicated by Dowling (2001), reputation can become an increasingly valuable asset in turbulent economic times and buffer financial performance in a variety of ways, insulating reputable businesses from the full impact of tough economic times.

### **How does CSR affect the corporate reputation of your firm in terms of how employees will perceive the CSR initiative?**

The study further focused on the effect of CSR on the reputation of firms in terms of how employees perceive such CSR initiatives. The following are some of the responses from the managers.

*Employees will have a sense of pride and belonging for being part of a succeeding organization and will readily do anything positive to keep the company afloat. Furthermore, more the awareness is created and followed, more the public views the Airline as a dedicated organization giving a feeling of "safe to fly."*

*A company's character, expressed positively and through the conduct of its Employees, instills pride in the work place, creates a more highly engaged worker and one who will put in discretionary effort above and beyond what is expected. A happy Employee is committed, loyal and productive.*

*CSR is a strong enabler for attracting young employees.*

*Employees have welcomed this initiative and feel very proud to work for a company that cares for its local community and environment. Increased satisfaction for working in a company that cares for the environment and its stakeholders.*

*By obtaining employee buy in to the CSR initiative, it helps them to understand that they are not just working for a big, impersonal machine, but for an organization that tries to understand and raise the bar in ways other companies do not.*

From the comments above, it is evident that a firm's CSR activities increase its attractiveness to potential and existing employees (Economist, 2008). Furthermore, managers acknowledge that CSR makes employee focus on specific dimensions of organizational commitment (Brammer et al., 2007; Maignan and Ferrell, 2001a; Peterson, 2004). Because of its multidimensional nature (Husted, 2000), the comments from the managers further reveal that CSR can influence a wide range of organizational attitudes and behaviors beyond organizational commitment. Aguilera et al. (2007) and Rupp et al. (2006) suggest that CSR can frame employees' perceptions of organizational justice. Managers acknowledge that CSR initiatives make potential and current employees want to identify with an organization as a form of social exchange (Flynn, 2005; Lawler, 2001; Molm, Peterson, and Takahashi, 1999). This suggests that individual levels of organizational identification may influence social exchange, and subsequent processes, triggered by CSR, may affect social exchange dynamics within organizations for existing employees.

**How does CSR affect the corporate reputation of your firm in terms of how regulators in the airline industry will perceive the CSR initiative?**

The study also looked at the effect of CSR on corporate reputation from the perspective of the regulators within the airline industry. The following are some of the responses given by the managers of the airline firms.

*The regulators have confidence in the airline and use her as a reference point for others to emulate. The overall impact is positive as long as the compliance is sustained/maintained.*

*Positively, as regulators will feel confident that the company is pursuing CSR issues. Regulators only care whether or not companies under their watch are complying with the appropriate regulations. By definition, some of these are environmental in nature (for example, aircraft noise and emissions).*

*Those companies which employ the newest equipment tend to meet easily these regulations. They do so, however, not for regulators' pleasure, but due to the improved operating economics, airport access and company image amongst the public.*

Regulators are very important stakeholders within the airline industry. Firms recognize that disapprovals by these regulators when brought to the media will negatively affect their operations. On other hand, when positive reviews are provided by the regulators, they serve as badges of assurance for customers and also sources of competitiveness. Regulators care whether or not companies under their watch are complying with the appropriate regulations. The airline firms recognize the shortcomings of official laws and regulations could give a competitive edge to

alternative ways to maintain order in society. In their quest to continuously relate to the society, the firms use CSR to get approval from society (Webb, 2004; Husted and Salazar, 2006). They make society believe and trust their willingness to engage in CSR.

### 5.5 Analysis of responses from customers

In the analysis of data from customers, the significant level used was 0.05. The significance level is denoted as  $\alpha$ . The  $p$ -value which is function of the observed sample results was used for testing a statistical hypothesis. If the  $p$ -value is equal to or less than the significance level ( $\alpha$ ), then the null hypothesis is rejected. The data from customers represent one sample; hence the Chi-Square Goodness-of-Fit test is used for the analysis.

#### The perception of customers on the contribution of CSR practices to the profits of airline firms

The table below, provides the result of the Chi-Square Goodness-of-Fit test for the perceptions of customers on the contributions of CSR on the profits of airline firms.

Table 3: The CSR practices of a company contribute to its profits

	Observed N	Expected N	Residual
Not at all	8	41.0	-33.0
To a minor extent	35	41.0	-6.0
To some extent	88	41.0	47.0
To a major extent	33	41.0	-8.0
Total	164		

Source: Survey data, 2015

Table 4: Test Statistics

	The CSR practices of a company contribute to its profits
Chi-Square	82.878 <sup>a</sup>
Df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 41.0.

Source: Survey data, 2015

It can be seen from this table that the test statistic is statistically significant:  $\chi^2(2) = 82.878$ , and the significant level  $p = 0.000$  is less than 0.05. Therefore, the null hypothesis is not supported and we can conclude that there are statistically significant differences in the perception of customers on the contributions of CSR on the profits of airline firms. Majority (88) of the respondents were of the view that

CSR contributes to the profits of airline firms to some extent. 33 respondents indicates that it contributes to a major extent whiles 35 respondents indicated that it contributes to a minor extent, whiles 8 respondents indicated that CSR does not contribute to the profitability of airline firms.

**The effect of CSR ratings of airline firms on customer’s decision to patronize airlines**

The study sought to find the effect of CSR ratings of airline firms on the decision to patronize airlines by customers. The findings from the analysis are shown the following tables.

Table 5: A high CSR rating for an airline firm will make a positive impression on me when deciding on which airline to patronize

	Observed N	Expected N	Residual
Not at all	14	41.0	-27.0
To a minor extent	39	41.0	-2.0
To some extent	82	41.0	41.0
To a major extent	29	41.0	-12.0
Total	164		

Source: Survey data, 2015

Table 6: Test Statistics

	A high CSR rating for an airline firm will make a positive impression on me when deciding on which airline to patronize
Chi-Square	62.390 <sup>a</sup>
Df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 41.0.

Source: Survey data, 2015

From the tables above, it is seen that the test statistic is statistically significant:  $\chi^2(2) = 62.390$ , and the significant level  $p = 0.000$  is less than 0.05. We can, therefore, the null hypothesis is not supported. It is therefore concluded that there are statistically significant differences on how CSR ratings of airline firms affect the decision to patronize airlines by customers. 82 respondents explained that CSR ratings of airline firms to some extent affect their decision to patronize airlines, whiles 39 and 29 respondents indicated that the effect is to a minor extent, major extent respectively. 14 respondents indicated that it does not affect them at all. This finding in in line with the findings by Esty and Winston (2006) that stakeholders are nowadays are interested companies that engage in responsible behavior, and such behaviors tend to shape markets and offers opportunities for companies that are prepared to respond.

In contrast to the analyses above, when customers were asked on whether they have used an airline, simply because of a company's CSR practices or a particular CSR campaign that was being carried out at the time, most (98) of the respondents gave a negative response. 28 customer's responded in the affirmative and 38 customers were not sure. The results of the analysis are shown in the following table.

Table 7: Have you ever used an airline, simply because a company's CSR practices, or a particular CSR campaign that was being carried out at the time?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	28	17.1	17.1	17.1
No	98	59.8	59.8	76.8
Not sure	38	23.2	23.2	100.0
Total	164	100.0	100.0	

Source: Survey data, 2015

In the view of the respondents, much as they would want to reward airline firms for been socially responsible, economic situation in terms prices of tickets are considered first in the purchasing decisions. For firms, providing attractive tickets fares is good for attracting customers. However, they stand a great chance of delighting their customers and connecting better with their emotions when they are also seen as socially responsible.

### **Customer's perception on whether airline firms have social responsibility aside their profit interest**

The profit orientation of airline firms cannot be disputed. However, literature explains that firms generally have a duty to the society. In view of this, respondents were asked to indicate their views on whether airline firms owe the society a duty or obligation aside their profit motive. The results of the analysis are indicated in the following tables.

Table 8: Airline firms are not for profit making only, they do have a duty/responsibility towards society

	Observed N	Expected N	Residual
Not at all	16	41.0	-25.0
To a minor extent	21	41.0	-20.0
To some extent	70	41.0	29.0
To a major extent	57	41.0	16.0
Total	164		

Source: Survey data, 2015

Table 9: Test statistics

	Airline firms are not profit making machines only and have a duty/responsibility towards society
Chi-Square	51.756 <sup>a</sup>
df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 41.0.

Source: Survey data, 2015

From the Goodness-of-Fit test, it was found that the test statistic is statistically significant:  $\chi^2 (2) = 51.756$ , and the significant level  $p = 0.000$  is less than 0.05. It can be concluded that customers of airline firms generally expect airline firms to act responsibly to the society. In fact, customers indicated that firms owe that duty responsibility to the society. Therefore, the null hypothesis is not retained. In terms of the frequency distribution, majority of the responses were rather towards the affirmative that firms have a responsibility to the society. 70 and 57 respondents indicated to some extent and to a major extent respectively, while 21 respondents indicated that the responsibility is to a minor extent and 16 respondents indicated that firms do not have a responsibility at all.

### The effect of CSR strategy on the reputation of airline firms

Good reputation of an organization is a valuable asset which indirectly impacts performance. Hence in considering CSR as an intangible asset in the airline industry it was imperative to ascertain the effects CSR has on the reputation of an airline company from the customers' perspective. The respondents in the study were asked to indicate if CSR has an impact on the reputation of airline firms. The results from the Goodness-of-Fit test are indicated in the tables below:

Table 10: The CSR strategy of the airline firm impacts its reputation

	Observed N	Expected N	Residual
Not at all	3	41.0	-38.0
To a minor extent	24	41.0	-17.0
To some extent	88	41.0	47.0
To a major extent	49	41.0	8.0
Total	164		

Source: Survey data, 2015



Table 11: Test Statistics

	The CSR strategy of the airline firm impacts its reputation
Chi-Square	97.707 <sup>a</sup>
Df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 41.0.

Source: Survey data, 2015

From the analysis, it is seen that the test statistic is statistically significant:  $\chi^2(2) = 97.707$ , and the significant level  $p = 0.000$  is less than 0.05. The null hypothesis is not supported, hence it is concluded that customers perceive CSR does have an impact on the reputation of airline firms. In terms of the distribution, 88 respondents indicated the impact is to some extent while 49 respondents indicated that it has a major impact. 24 respondents were of the view that the impact is of a minor extent while 3 respondents explained it does not have an impact at all.

## 5.6 Analysis of responses from employees

The following are the analysis of data collected from employees (internal stakeholders) of airline firms.

### **Employee's (internal stakeholders) perception of their company's CSR performance and how does it foster the employees' attitude to performance in airline firms**

Employees were asked to indicate how the companies CSR activities influences them when taking certain decisions. These decisions are important as they ensure the satisfaction of employees to give of their best to the airline firm and also to speak good about the firm to others. A Chi-Square test was conducted on the data collected and the findings are indicated in the table below:

Table 12: Test Statistics

	I really care about the fate of this organization because of the CSR initiatives	For me this is the best of all possible organizations for which to work because of its social responsibility initiatives	I talk up this organization to my friends as a great organization to work for	I would accept almost any type of job assignment in order to keep working for this organization	I find that my values to help others and the society as a whole and the organization's values are very similar	I am proud to tell others that I am part of this airline firm due to their CSR activities	I am extremely glad that I chose this airline firm to work for over others I was considering at the time I joined
Chi-Square	36.489 <sup>a</sup>	14.872 <sup>a</sup>	30.532 <sup>a</sup>	10.106 <sup>a</sup>	8.043 <sup>a</sup>	15.242 <sub>a</sub>	8.112 <sup>a</sup>
df	3	3	3	3	3	3	3
Asymp. Sig.	.000	.002	.000	.018	.102	.009	.105

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 11.8.

Source: Survey data, 2015

From the analysis, it is found that, caring about the fate and continuous existence of the firm (0.000), satisfaction in working for the firm (0.002), unsolicited marketer or willingness speak good about the firm (0.000), willingness to play any role for the firms progress (0.018), sharing pleasant feelings about the airline (0.009) were all significant. This is because their p-values were all less than the significance level of 0.05. Only feelings as a good employer (0.105) and the coincidence of values of the employee with that of the firm (0.102) was not significant.

### Employees' Perception on the extent to which CSR Contribute to Profit

From the analysis majority (72%) of employees of airline companies were of the view that CSR contributed positively to the profits of Airline Company. 11% however reported otherwise while 17% could not establish whether CSR contributed to profits or not. The distribution is depicted in the pie chart below:

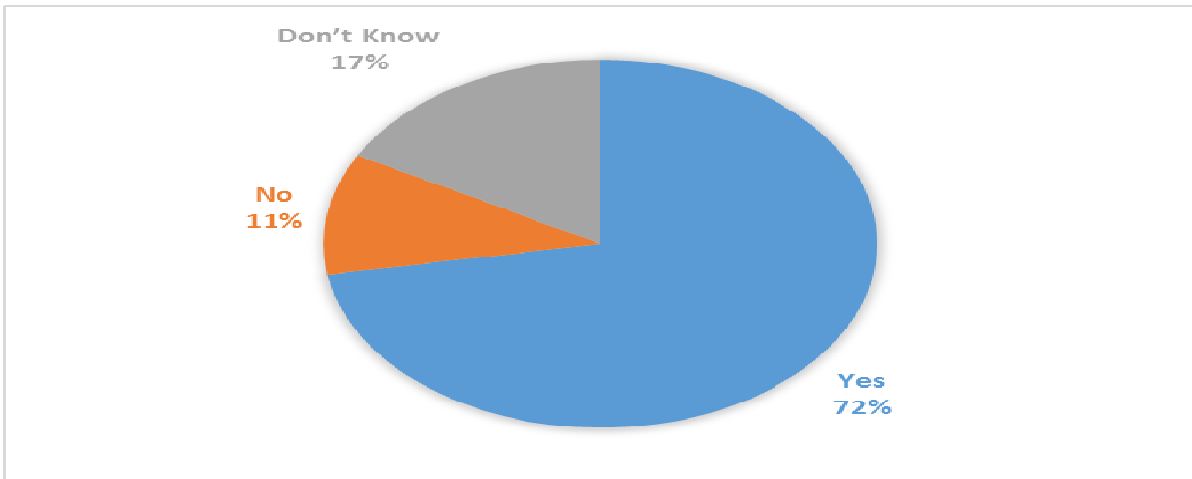


Figure 10: Could CSR help your company to meet its profit objectives?  
Source: Survey data, 2015

From the pie chart above there is a wide perception among employees that CSR tends to positively impact on the profits of firms. They argue that, positive reviews especially in terms of the safety standards adopted will make the airline firm attractive to potential employees. They are able to get the best of employees to work with them. Performance is consequently increased and competitiveness within the industry is enhanced.

### Knowledge of CSR and Years of work in the airline firm

A cross tabulation analysis was conducted to determine the relationship between the knowledge of CSR and years of work in the airline firm. It was found that almost all the employees in the airline firms were aware of the CSR activities in their organizations. Except those who had worked between one and three years, knowledge of CSR was independent of how long an employee has been in the airline company.

Table 13: Cross tabulation analysis of the knowledge of CSR and years of work in the airline firm

		Are you aware of the CSR activities your company engages in?		Total
		Yes	No	
How long have you worked in organization	Within a year	4	1	5
	1-3 years	5	5	10
	4-8 years	11	5	16
	9-20 years	7	4	11
	Over 20 years	5	0	5
Total		32	15	47

Source: Survey data, 2015

### Employee involvement in CSR Activities

Employees were asked about their participation in CSR activities at companies, and the response was generally positive. Most of the respondents indicated that they participate sometimes (25) while others indicated that they participate always (4). However, some other employees explained that they will only participate if it is given as an additional task (9) while 7 respondents explained that they do not remember. 2 employees however indicated that they do not like to participate. For those who did not like to participate, they explained that it was not as part of their official duties. However, even for those who participate in the company's CSR, they engage in CSR activities only if it is given as an official or additional task. The distributions are indicated in the graph below:

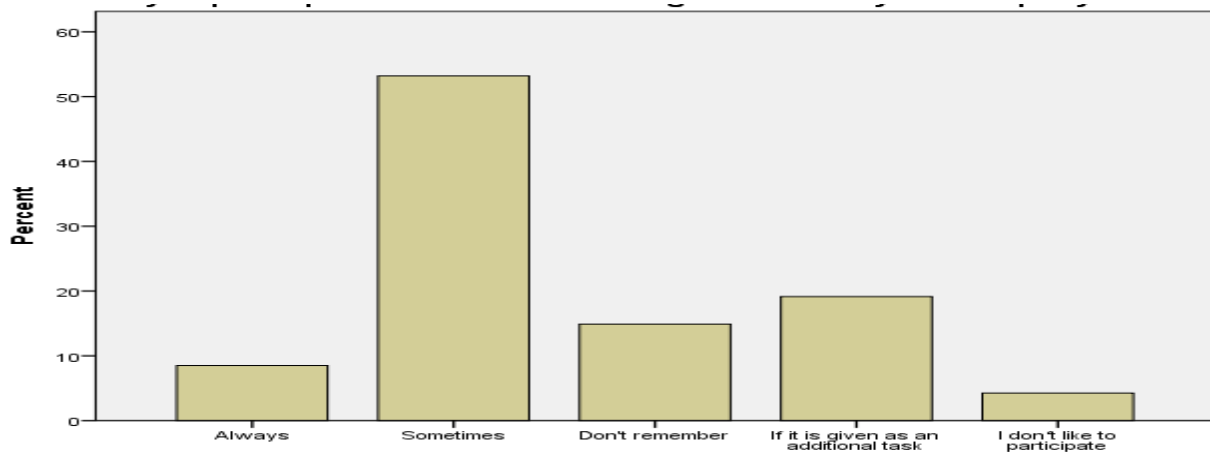


Figure 11: Employee participation in the CSR activities organized by your firm?  
Source: Survey data, 2015

Employees were asked to indicate the extent to which they believe in their companies' CSR values and objectives. A majority (61.7%) of the 29 employees in the companies interviewed indicated the affirmative. Meanwhile, 6.5% (3) of the employees gave a negative response while 31.7% (15) of the employees indicated that they did not know. The balance of the results are indicated in the graph below:

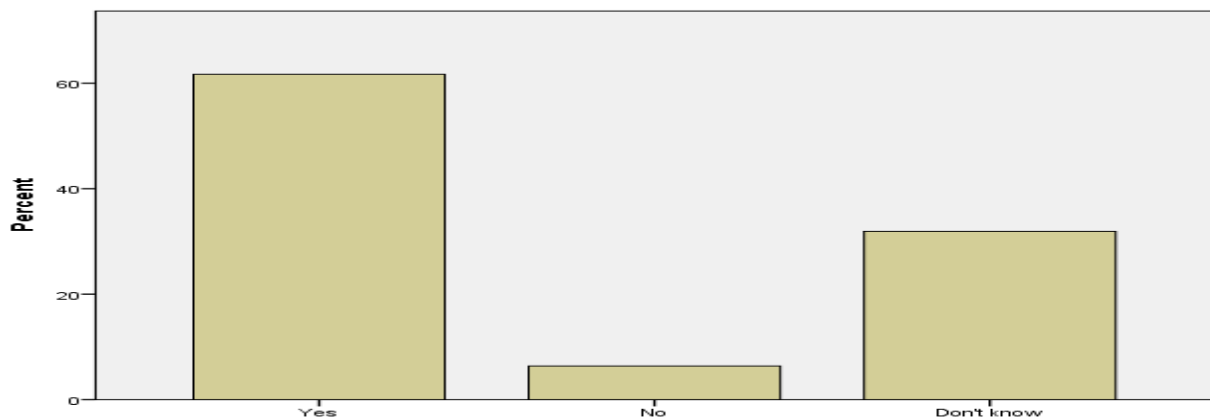


Figure 12: Employee believe in the firm's CSR values and objectives  
Source: Survey data, 2015

Also of interest in this study is the level of an employee’s familiarity with the CSR strategy of his or her airline firm. The findings from the interviews with employees are as follows:

Table 14: Employee familiarity with the CSR strategy of their firm

	Frequency	Percent	Valid Percent
Yes I know well	12	25.5	25.5
I heard about it	17	36.2	36.2
I read it once, but don’t remember now	2	4.3	4.3
I don’t know if there is any strategy	16	34.0	34.0
Total	47	100.0	100.0

Source: Survey data, 2015

A worrying trend in the findings was that most (16) of the employees interviewed did not know the existence of their company CSR strategy. If employees are to properly execute the strategy of an organization, then they must be aware of it and understand it thoroughly to be able to do it well. However, as seen in the graph below, 17 respondents indicated their unawareness of the existence of a CSR strategy for their organization, while 12 respondents indicated that they know of their organization’s CSR strategy well enough to enable them execute it.

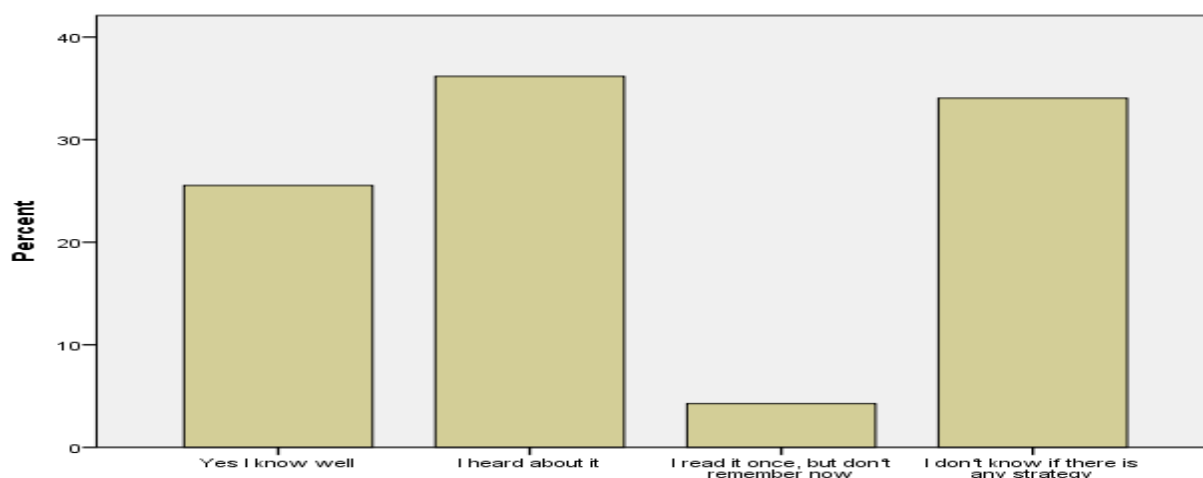


Figure 13: Employee familiarity with the CSR strategy of their firm

Source: Survey data, 2015

### 5.7 CSR and financial performance of airline firms

In this study, the relationship between CSR and financial performance was conjectured and tested. The conjecture was based on empirical literature that there is either a positive-negative or no effect between CSR and financial performance of firms. In order to measure the CSR, there were two indicators that were used as proxy. The indicators are the Kinder Lydenberg Domini (KLD) and the Domini 400 Social Index. The financial performance of the airline firm was measured using

accounting variables based on the annual reports of airline firms. The accounting variables used are Return on Equity (ROE), Return on Assets (ROA) and Return on Sales (ROS). Annual reports of the airline firms from a 5 year interval were used in the analysis. Furthermore, there was a need to include some controls for some extraneous variables. Company size and risk have been suggested to as variables that can affect the performance and corporate social performance of firms (Ullman 1985; McWilliams and Siegel, 2000). Hence, these two variables were controlled to reduce the incidence of their interference and also to strengthen the relationship between CSR and financial performance.

The regression analysis was performed on the important indicators in the annual reports of selected airline firms over a 5-year period. The financial indicators used are Returns on Assets (ROA), Return on Equity (ROE,) and Returns on Sales (ROS). Both the KLD rating and the participation in Domini 400 Social Index were used in measuring CSR. The table below gives descriptive statistics for all the variables used in the study.

Table 15: Descriptive Statistics for 5 year duration

Variable	Mean	S.D
ROA	4.12	4.58
ROE	17.01	20.46
ROS	7.49	9.69

Source: Survey data, 2015

The correlation matrices for the key variables identified for the firms for the 5 year period are shown in the table 16. The CSR indicators, namely the KLD scores and Domini index participation were found to be strongly correlated with  $p < 0.001$ . Consequently, it is found that, both the KLD scores for the airline firms selected and the Domini 400 Social Index are positively and significantly correlated with the various financial performance indicators (ROA, ROE, ROS) at  $p \leq 0.1$  or better.

Table 16: Correlation matrices for the key variables for 5 year duration

	KLD	Domini	ROA	ROE	ROS	LogAssets	LogSales
Domini	0.372***						
ROA	0.109***	0.074***					
ROE	0.037+	0.010+	0.102***				
ROS	0.99***	0.039*	0.435***	0.012+			
LogAssets	0.001	-0.031+	-0.219***	-0.03	0.013		
LogSales	-0.018	-0.001	-0.114**	0.010	-0.117***	0.64***	
Debt/Assets	-0.10***	-0.07***	-0.25***	0.046***	-0.16***	0.23***	0.194***

+  $p \leq 0.1$ ; \*  $p \leq 0.05$ ; \*\*  $p \leq 0.01$ ; \*\*\*  $p \leq 0.001$

Source: Survey data, 2015

The research was conducted across sectional time series regression analysis. Here, the financial performance of airline firms was the dependent variable with control for size of the firm and the debt level. In the various models used, the dependent variable was CSR and the measurement of the other independent variables varied. The table below shows the results of the regression analysis using financial performance as the dependent variable and the Domini Index as the independent variable. The first model uses the logarithm of assets as a proxy for the size of the airline firm, while the second model uses the logarithm of sales.

Table 17: Regression of ROA, ROE and ROS with Domini Index when controlling for risk and size of airline firm for 5 year duration

Years		Dependent variable	Domini Participation Coefficient	Adj R <sup>2</sup>	F
5 year duration	Log of assets used as proxy for size	ROA	0.61 (p ≤ 0.1)	21.61	11.74 (p ≤ 0.001)
		ROE	1.79	7.21	1.38 (p ≤ 0.001)
		ROS	0.59 (p ≤ 0.1)	14.49	4.09 (p ≤ 0.001)
	Log of sales used as proxy for size	ROA	0.55 (p ≤ 0.1)	19.71	11.14 (p ≤ 0.001)
		ROE	1.17	7.17	2.23 (p ≤ 0.001)
		ROS	0.44 (p ≤ 0.1)	9.18	4.39 (p ≤ 0.001)

Source: Survey data, 2015

From the analysis, it is found that each of the models is significant at (p ≤ 0.001). Furthermore, when the ROA and ROS were used as dependent variables, they were related to Domini participation at p ≤ 0.10. Also, when the ROE was used in the measurement of profitability, it was found to be in the same direction although it was not significant.

Consequently, the second analysis used the KLD rating system to measure CSR. The table below shows the results of the regression analysis when financial performance of the firm is used as a dependent variable and the KLD social responsibility score is used as the independent variable. The first model used the logarithm of assets as a proxy for size of the firm. However, the second model used the logarithm of sales.

Table 18: Regression of ROA, ROE and ROS with KLD social score when controlling for risk and size for 5 year duration

Years		Dependent variable	Domini Participation Coefficient	Adj R <sup>2</sup>	F
5 year duration	Log of assets used as proxy for size	ROA	1.07 (p ≤ 0.05)	21.70	11.71 (p ≤ 0.001)
		ROE	0.87 (p ≤ 0.1)	7.810	2.49 (p ≤ 0.001)
		ROS	0.49 (p ≤ 0.05)	13.68	4.19 (p ≤ 0.001)
	Log of sales used as proxy for size	ROA	0.81 (p ≤ 0.01)	21.6	12.07 (p ≤ 0.001)
		ROE	1.00 (p ≤ 0.05)	7.84	2.59 (p ≤ 0.001)
		ROS	0.54 (p ≤ 0.05)	12.51	4.52 (p ≤ 0.01)

Source: Survey data, 2015

Generally, the results from the relationship was much stronger when the KLD scores were used in measuring CSR, rather than when using the Domini Index. However, both the KLD scores and the Domini Index result indicate a positive relationship between CSR and profitability of the firm. This finding confirms the many empirical studies on the relationship between CSR and financial performance that have suggested performance is, indeed, a key driver for the adoption of CSR (Bansal and Roth, 2000; Haigh and Jones, 2006; Hess et al., 2002; Juholin, 2004). Furthermore, it confirms the studies that assert a positive relationship between CSR and financial performance (Barnett and Salomon, 2006; McWilliams and Siegel, 2001; Griffin and Mahon, 1997; Luo and Bhattacharya, 2006; Goll and Rasheed, 2004; Ruf et al., 2001; Graves and Waddock, 1999; Waddock and Graves, 1997; Preston and O'Bannon, 1997; Pava and Krausz, 1996). The KLD scores tend to give more detailed information on the CSR initiatives of the various airline firms. There was a closer relationship between the ROA and the KLD score than the ROE and ROS. Overall, the models used were significant at  $p \leq 0.001$  level. When the ROA and the ROS are used as the dependent variables, they tend to be strongly related to KLD score at  $p \leq 0.05$ . However, when the ROE is used, the results are less strong although significant at  $p \leq 0.1$ . From the results of the analysis, the coefficient of the KLD score is zero, hence it is concluded that CSR initiatives are related to better financial performance of airline firms.



## **6. RELEVANCE FOR SCIENCE AND PRACTICAL MANAGEMENT**

### **6.0 Introduction**

The major gains for this dissertation are its practical relevance to firms not only in the airline industry but for firms in industries that want to leverage on CSR to increase their financial performance. The following are the scientific or theoretical and practical benefits of this thesis.

### **6.1 Benefits for scientific knowledge**

The research provides interpretation of management with focus on the significance of managing CSR initiatives of firms in the airline industry. The insight from this research enhances researchers' knowledge and understanding of the theories in CSR and its applications in the airline industry. Consequently, the research contributes to the advancement in current knowledge in the area of influence in the important interrelationship between CSR (intangible asset) initiatives and the performance of firms in the airline industry.

Furthermore, the research design makes it possible for a comprehensive analysis of the perception of relevant stakeholders in the airline industry on the CSR activities of airline firms. This makes it possible for concise conclusions to be drawn to further advance scientific knowledge in the field of corporate social responsibility.

The study has identified the variables that are relevant for the various stakeholders when evaluating CSR of firms. The variables identified provide a strong theoretical basis for advanced scientific work on CSR. The finding that CSR is indeed a valuable intangible assets that contributes to the financial performance (ROA, ROE and ROS) of firms within the airline industry tends to advance scientific knowledge and complements the existing body of knowledge and theories established on the relationship between CSR and financial performance.

### **6.2 Benefits for practical knowledge**

The study contributes to the viability of current and potential investment in CSR in the airline industry. The findings from this research augments the existing CSR strategies of managers in the global airline industry to increase their reputation, enhance their competitiveness and contribute positively to their financial performance. The managerial implication is that, for airline firms to be competitive, it is important for them to understand the CSR expectations of relevant stakeholders in their strategies. They must consider the expectations of both internal and external stakeholders in the development of their CSR strategies. This research provides insight into the CSR factors that are relevant within the airline industry. From the variables and factors enumerated in the study, airline firms are better placed to understand the expectations and trends in CSR strategy development.

This study brings out the salient aspects of CSR. The findings and recommendations from this research do not only add to theory, but also provide proactive and result-oriented directions to help managers in their CSR strategy formulation and implementation. From a strategic point of view, the research brings out the salient variables that firms must include in their CSR strategies. This will prevent the use of a trial-and-error method in the development and implementation of CSR strategies

## **7. CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH**

### **7.0 Introduction**

This chapter summarizes the thesis with conclusions and some suggestions for future research. In concluding the study, the implications and some recommendations are provided.

### **7.1 Conclusions**

The CSR approach is offered as a suitable and effective managerial approach for modern airline business practices. Corporate sustainability is essential for the implementation of corporate sustainability management so as to meet financial, strategic operational, ecological, and social goals of the firm. This research provides some economic underpinnings to help understand the mechanisms and incentives behind the behavior of socially responsible firms in the airline industry.

There is an extensive debate concerning the legitimacy and value of being a socially responsible business. There are different views of a firm's role in society and disagreement as to whether wealth maximization should be the sole goal of a corporation. Most people identify certain benefits for a business being socially responsible, but most of these benefits are still hard to quantify and measure. This study addresses the question of whether corporate social responsibility is linked to financial performance. Using empirical methods, the study tested the relationship between CSR and financial performance. Arguments exist that support the view that firms which have solid financial performance have more resources available to invest in social performance domains such as employee relations, environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact such as providing services for the community and to their own employees. Those allocations may be strategically linked to a better public image and improved relationships with the community, in addition to an improved ability to attract more skilled employees.

Furthermore, the study found that CSR does have an impact on the reputation of airline firms. Socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners. Socially responsible companies also have less risk of negative rare events. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption. In addition, they run less risk of having to recall defective product lines and pay heavy fines for excessive polluting. They also have less risk of negative social events, which could damage their reputation and costs millions in information and advertising campaigns or litigation. The two different explanations of this relationship depend on its causality. This study did not explore the direction of the causal connections. Nevertheless, the findings indicate that CSR is positively related to better financial performance and

this relationship is statistically significant, supporting, therefore, the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

The study found CSR plays a vital role as an intangible asset in the airline industry. The contribution comes in the forms of goodwill, good image, reputation, and brand image. In terms of CSR strategies or plans that airline firms implement to stay competitive, the study found that such strategies are diverse. They span from ethical behaviors, use of eco-certification, national and global recognition, identifying with the local people, investing in employees, volunteerism, charity work or donations, and public relations.

Furthermore, the research shows that CSR has an effect on corporate reputation. The effects on reputation come in the form of the firm's attractiveness to customers and to the market, reinforcement in the value proposition to customers, helping it win contracts, and employees having a sense of pride and belonging to the organization. Other effects include a strong enabler for attracting young employees, confidence in the firm by regulators, and positive media reviews.

The study further found that there are statistically significant differences in the perceptions of customers on the contributions of CSR to the profits of airline firms. In terms of the effect of CSR ratings of airline firms on a customer's decision to patronize an airline, the study found that there is a statistically significant difference in how CSR ratings of airline firms affect the decision to patronize airlines by customers. However, when customers were asked if they ever used an airline simply because of its CSR practices or a particular CSR campaign, it was found that the majority responded negatively.

In terms of employee (internal stakeholder) perceptions of their company's CSR performance and whether it fosters employee attitudes in their performance at an airline firm, the study suggests that firms must engage in CSR as it fosters satisfaction in working on the organization, willingness to speak well and recommend the organization to others, willingness to play any role for the firm's progress, and the level of care for the continued existence of the firm.

There is no doubt that CSR has a positive relationship with the financial performance of airline firms. CSR tends to have an effect on the ROA, ROE, and ROS. However, it is important for firms to consider the Cost-Benefit Analysis (CBA) of their CSR initiatives. For firms that are interested in maximizing profits for their stakeholders, there is a need for them to consider both the costs and benefits of CSR. This means that airline firms should engage in CSR activities not only when internal and external stakeholders reward or pressure them to engage in such behavior, but also if they can match their costs with the benefits that accrue from them.

## **7.2 Suggestions for future research**

Future research in this area could proceed in a number of directions. First, more extensive studies are needed to explore the causal mechanisms linking CSR to

profitability and to determine whether those relationships hold consistently over time. The source of the connection between CSR and profitability has rarely been systematically investigated. It is also important to posit the timing in the relationship since it would be valuable to investigate and to ascertain how long it takes for the impact of CSR on financial performance to be revealed. For the above to be realized, more data on CSR should become available. The reliability of the CSR data is also an important issue as data from different sources have significant variations regarding how to evaluate the CSR performance of a firm.

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## PUBLICATIONS

1. Asatryan, R. (2012) Modelling the Cost-Benefits of Corporate Social Responsibility (CSR) for decision making in the Aviation Industry. *Advances in Economics, Risk Management, Political and Law Science, Business and Economics Series*. WSEAS. ISBN: 978-1-61804-123-4. Pages 108-113
2. Asatryan, R. (2013) The effect of CSR initiatives on customer loyalty in the airline industry. In the *7th WSEAS International Conference on Business Administration*. ISBN: 978-1-61804-152-4. Milan, Italy, January 9-11, 2013. Pages 66-71
3. Asatryan, R. and Březinová, O. (2014) Corporate Social Responsibility and financial performance in the airline industry in Central and Eastern Europe. *Magazine Acta Universitatis Agriculturae et Silviculturae Mendeleianae Brunensis*. Number 4, Volume 62. pp. 633-639
4. Asatryan, R. (2013) Social maturity, managerial competence and knowledge in the management and implementation of CSR in the airline industry. ICEBM 2013: International Conference on Economics and Business Management. Paris, France, November 06-07, 2013.
5. Asatryan, R. (2013) Cost Benefit Analysis and adjustments of Corporate Social Responsibility in the airline industry. ICEMBIT 2013: International Conference on Economics, and Management of Business, Innovation and Technology Istanbul, Turkey, December 05-06, 2013
6. Asatryan, R. and Asamoah E. S. (2014) Perceived Corporate Social Responsibility (CSR) activities and the antecedents of customer loyalty in the airline industry. *Scientific papers of the University of Pardubice Series D*. No. 32, Vol. XXI pp. 5-17

# **CURRICULUM VITAE**

## ***Personal information***

Surname: Asatryan

First name: Roman

Address: Stefanikova 2520/15

Zlin, 76001

Czech Republic

Email: roman.asatryan@yahoo.com

Nationality: Armenian

Date of birth: 22 Feb 1986

## ***Education and training***

Date: May, 2014

Course: Introduction of Aviation Leasing and Finance

Name of institution: Law Society of Ireland

Dates: September 2011-ongoing

Title of qualification: PhD (Doctor of Philosophy)

Research topic: Corporate social Responsibility as an intangible asset in the Airline Industry in Central and Eastern Europe

Name of institution: Tomas Bata University in Zlin, Czech Republic

Dates: September 2009 - June 2011

Title of qualification: Masters in economics and management (International Business), with Honours

Research topic: The Project of The XYZ Air Company Network and Fleet Planning Strategy

Name of institution: Tomas Bata University in Zlin, Czech Republic

Dates: August 2002 – May 2006

Title of qualification: Bachelor in Economics and Management, with Honours

Research topic: Operational profitability and efficiency for European Markets using Airbus 321 from Yerevan.

Name of institution: State Engineering University of Armenia

## ***Work experience***

Dates: January 2011 – present

Position: Independent Aerospace Consultant; providing Consulting Services to airline operators and MRO (Maintenance Repair Organizations) in Europe, Russia and CIS.

Name of employer: Self-employed, Zlin, Czech Republic

Dates: July 2006 – August 2007

Position held: Intern; developing a business plan for the new start up Association.  
Name of employer: Central Europe Private Aviation Association, Prague, Czech Republic

Dates: October 2008 – September 2009

Position held: Aviation Department Manager; taking part in writing business plans, working with clients on purchasing aircrafts as well as aviation parts, providing consulting for leasing and purchasing agreements for clients.

Name of employer: Mika Consulting LLC, Yerevan, Armenia

Dates: October 2006 – April 2009

Position held: Volunteer Translator for people giving humanitarian aid to Armenians through The United Methodist Church.

Name of employer: United Methodist Committee on Relief NGO, Yerevan, Armenia

Dates: July 2006 – August 2008

Position held: Volunteer Translator when ex-pat employees travelled to villages on projects improving the lives of children with disabilities.

Name of employer: Mission East NGO, Yerevan, Armenia

Dates: June 2004 – June 2006

Position held: Received two-year sabbatical from SEUA in order to complete national requirement of serving two years in military service; achieved staff sergeant status; honourably discharged.

Name of employer: Ministry of Defence of the Republic of Armenia (stationed at Ijevan, Armenia)

### ***Academic & Other Achievements***

Dates: 2011

Awarded: Black Belt I Dan International Class by The President of International Dzissen Kempo Combat Art Federation in Transcaucasia Renshi of the black belt VI Dan of Dzissen Kempo and Sheehan of the black belt VIII Dan of World Universal - Elite Martial Art Association International Class V. Galstyan

Dates: 2011

Awarded: Extraordinary scholarship by Tomas Bata University in Zlin for my PhD program, Czech Republic.

Dates: 2011

Awarded: Scholarship for one of the best Master Thesis works awarded by Tomas Bata University in Zlin, Czech Republic.

Dates: 2009

Awarded: Visegrad Scholarship Program (VSP) to study at Tomas Bata University in Zlin, Czech Republic for two-years in Economics and Management Master's program.

Dates: 2009

Awarded: Armenian Relief Fund Scholarship, Yerevan; 1 of 150 best students in Armenia.

Dates: 2009/2008/2007

Awarded: Air Traffic Control Association Scholarship, Alexandria, Virginia, USA, 1st international student ever selected

Dates: 2008

Awarded: Macroeconomic Framework Module organized in Yerevan, Armenia, by International School of Economics of Tbilisi.

Dates: 2007

Awarded: Eurasian Undergraduate Exchange Program, U.S. Department of State, scholarship finalist.

Dates: 2007

Awarded: Gen. Dicran Sirian Memorial Scholarship, Italian Air Force, Retired; Rome University La Sapienza professor; 1st recipient to receive this new scholarship offered at SEUA, Yerevan.

Dates: 2007

Awarded: Armenian Relief Fund Scholarship, Yerevan; 1 of 100 best students in Armenia.

Dates: 2003

Awarded: Mathematic Certificate, Vermont State Mathematics Coalition, Montpelier, Vermont, USA.

### ***Conference and Exhibitions***

Date: May 26-28, 2015

Event: Airline Purchasing & Maintenance Summit (London, UK)

Date: October 28-30, 2014

Event: Airline Engineering & Maintenance Conference (Belgrade, Serbia)

Date: October 7-9, 2014

Event: MRO Europe – Conference / Exhibition (Madrid, Spain)

Date: May 6-8, 2014

Event: Airline Purchasing & Maintenance Summit (London, UK)

Date: 2013

Event: Airline Engineering & Maintenance Conference (Kiev, Ukraine)

Dates: September 24-26, 2013

Event: MRO Europe – Conference / Exhibition – (Excel, London)

Dates: May 14-15, 2013

Event: MRO Eastern Europe, Baltics and Russia Conference – (Vilnius, Lithuania)

Dates: May 23-24, 2012

Event: MRO Eastern Europe, Baltics and Russia Conference – (Vilnius, Lithuania)  
Dates: March 21-22, 2012  
Event: Aviation and Environment Summit – (Geneva, Switzerland)  
Dates: October 9-11, 2012  
Event: MRO Europe – Conference / Exhibition – (Amsterdam, Netherlands)  
Dates: September 27-29, 2011  
Event: MRO Europe – Conference / Exhibition – (Madrid, Spain)  
Dates: October 20-21, 2010  
Event: Airline E&M: Central and Eastern Europe Conference - (Prague, Czech Republic)  
Dates: April 22-23, 2010  
Event: Central Europe Private Aviation Conference – (Prague, Czech Republic)  
Date: 2008  
Event: Purchasing negotiation of Boeing 767 & 777 to executives of Aircompany “Armavia” organized by Boeing – (Yerevan, Armenia)  
Date: 2008  
Event: Development of the Transportation Logistics in the Businesses of Freight Forwarding, Storage and Tare – (Yerevan, Armenia)

### ***Research projects***

- 2013 - IGA/FaME/2013/037 of the Internal Grant Agency of Tomas Bata University “Corporate Social Responsibility as an intangible asset in the Airline Industry in Central and Eastern Europe”

### ***Languages***

- English (Full professional proficiency)
- Armenian (Native)
- Russian (Full professional proficiency)
- Czech (Working proficiency)

### ***Hobbies and interest***

Avid reader, traveling the world, mountain biking and living life to its fullest.



# APPENDICES

## APPENDIX 1: QUESTIONNAIRE FOR CUSTOMERS

Dear Sir/Madam,

I am a PhD candidate at the Tomas Bata University in Zlin, Czech Republic and I am conducting a research on the topic **Corporate Social Responsibility as an intangible asset in the Airline Industry in Central and Eastern Europe**. I would appreciate it if you could please complete this survey questions for me. The questions will take about 15-20 minutes to complete. I am aware that you are busy, but the time you will take to complete this questionnaire will be valuable to this important research. You are assured that, the questionnaire is for academic purposes only and your responses will be completely confidential. Thank you for your willingness to participate.

Sincerely

Roman Asatryan

Faculty of Management and Economics

Tomas Bata University in Zlín

Czech Republic

Email: romankempo2002@yahoo.com

*(In answering the questions, close approximations will be very much appreciated)*

### **Demographic background** *(please tick what is applicable)*

1. Sex:      a. Female      b. Male
  
2. Age:      a. 11-20      b. 21-30      c. 31-40      d. 41-50      e. 51-60
  
3. Educational Level
  - a. Elementary
  - b. High school
  - c. Undergraduate
  - d. Postgraduate
  - e. Doctorate
  
4. Citizenship: .....

### **General information**

1. Have you travelled by airplane before?
  - a. Yes
  - b. No

If No, move to questions 3

2. How often do you travel by airplane?
  - a. Daily
  - b. More than once a week
  - c. Once every two weeks
  - d. Once a month
  - e. Once every six months
  - f. Occasionally
  
3. Which of the below definitions describes CSR best in your opinion? (*You may choose maximum 2 of the options provided below*). Check at most 2 answers
  - a. CSR is a set of philanthropic activities a company carries out voluntarily on a sporadic basis in the local community
  - b. CSR is the commitment of a company to strictly abide to national labour and environmental laws
  - c. CSR is about promoting corporate fairness, transparency and accountability through a set of internal rules or processes by which businesses are operated, regulated and controlled
  - d. CSR is a collection of occasional philanthropic practices, gestures or initiatives motivated by public relations or marketing consideration
  - e. CSR is a comprehensive set of policies, practices and programs that are strategically integrated throughout business operations and decision-making processes to minimize the negative impact on the company's social and natural environment
  - f. CSR is a formal process of relationship management through which companies engage with their stakeholders to align their mutual interests
  - g. CSR is a concept aimed at achieving commercial success in a way that does not compromise the well being of its employees or the local community
  - h. CSR describes a decision-making process based on ethical values and compliance with legal requirements
  - i. CSR describes the way in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (including shareholders, employees, customers, business partners, governments and communities)
  
4. The CSR practices of a company contribute to its profits
  - a. Not at all
  - b. To a minor extent
  - c. To some extent

- d. To a major extent
5. A high CSR rating for an airline firm will make a positive impression on me when deciding on which airline to patronize
- a. Not at all
  - b. To a minor extent
  - c. To some extent
  - d. To a major extent
6. Airline firms are not profit making machines only and have a duty/responsibility towards society
- a. Not at all
  - b. To a minor extent
  - c. To some extent
  - d. To a major extent
7. Have you ever used an airline, simply because a company's CSR practices, or a particular CSR campaign that was being carried out at the time?
- a. Yes
  - b. No
  - c. Unsure
8. The following are a few factors that influence purchasing behavior of customers of airlines. Based on your viewpoint, rank them from 1-5, (1 being the most important and 5 being the least).
- a. Price of the product/service
  - b. Quality of the product/service
  - c. CSR profile of the company
  - d. Company's reputation in the society where it operates
9. As a consumer who is aware of organizations and their irresponsible behavior at times, tick three of the below actions that you feel are most harmful to society
- a. Offering harmful products
  - b. Overpriced goods and services
  - c. Evading tax

- d. Mistreating employees
- e. Polluting the environment
- f. Don't know
- g. Other – (Please specify)

10. The CSR strategy of the airline firm impacts its reputation

- a. Not at all
- b. To a minor extent
- c. To some extent
- d. To a major extent

11. What is your perception on the CSR performance of firms in the airline industry?

.....  
.....

## APPENDIX 2: QUESTIONNAIRE FOR EMPLOYEES

Dear Sir/Madam,

I am a PhD candidate at the Tomas Bata University in Zlin, Czech Republic and I am conducting a research on the topic **Corporate Social Responsibility as an intangible asset in the Airline Industry in Central and Eastern Europe**. I would appreciate it if you could please complete this survey questions for me. The questions will take about 15-20 minutes to complete. I am aware that you are busy, but the time you will take to complete this questionnaire will be valuable to this important research. You are assured that, the questionnaire is for academic purposes only and your responses will be completely confidential. Thank you for your willingness to participate.

Sincerely

Roman Asatryan  
Faculty of Management and Economics  
Tomas Bata University in Zlín  
Czech Republic  
Email: romankempo2002@yahoo.com

*(In answering the questions, close approximations will be very much appreciated)*

### Demographic background *(please tick what is applicable)*

5. Sex:      a. Female      b. Male

6. Age:      a. 11-20      b. 21-30      c. 31-40      d. 41-50      e. 51-60

7. Position in your organization

.....

8. How long have you worked in organization

- a. Within 1 year
- b. 1-3 years
- c. 4-8 years
- d. 9 -20 years
- e. over 20 years

### General information

1. Which of the below definitions describes CSR best in your opinion?  
*(You may choose maximum 2 of the options provided below)*. Check at most 2 answers
- j. CSR is a set of philanthropic activities a company carries out voluntarily on a sporadic basis in the local community
- k. CSR is the commitment of a company to strictly abide to national labour and environmental laws
- l. CSR is about promoting corporate fairness, transparency and accountability through a set of internal rules or processes by which businesses are operated, regulated and controlled

- m. CSR is a collection of occasional philanthropic practices, gestures or initiatives motivated by public relations or marketing consideration
- n. CSR is a comprehensive set of policies, practices and programs that are strategically integrated throughout business operations and decision-making processes to minimize the negative impact on the company's social and natural environment
- o. CSR is a formal process of relationship management through which companies engage with their stakeholders to align their mutual interests
- p. CSR is a concept aimed at achieving commercial success in a way that does not compromise the well being of its employees or the local community
- q. CSR describes a decision-making process based on ethical values and compliance with legal requirements
- r. CSR describes the way in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (including shareholders, employees, customers, business partners, governments and communities)

2. Are you aware of the CSR activities your company engages in?

- a. Yes b. No

If Yes indicate examples of CSR activities you have witnessed

.....  
 .....

3. Do you believe in the company's CSR value and objectives?

- a. Yes b. No c. I dont know

Kindly give reasons for your answer

.....  
 .....

4. Do you participate in CSR activities organized from your company?

- a. Always
- b. Sometimes
- c. Don't remember
- d. If it is paid
- e. If it is given as an additional task
- f. I don't like to participate

5. Are you familiar with the CSR strategy of your company

- a. Yes I know well
- b. I heard about that
- c. I read it once, but don't remember now
- d. I don't know if there is any strategy

6. Do you think CSR can help your company to meet its profit objectives?

- a. Yes b. No c. I dont know

Kindly give reasons for your answer

.....  
 .....  
 7. The reason behind the company's CSR is: (tick all or at least two)

- a. Company's success
- b. Just waste of money
- c. Marketing tool
- d. For image building
- e. To gain more customers
- f. To help the community
- g. To satisfy regulators
- h. Others (please specify).....

8. Indicate how the companies CSR activities can influence the following decisions. In answering these questions, emphasis should be placed in the role of the companies CSR initiatives and its influence on you as an employee.

Please indicate the extent to which you agree or disagree to these statements. Strongly disagree (1) Disagree (2) Neither agree nor disagree (3) Agree (4) Strongly agree (5)		Strongly disagree (1)	Disagree (2)	Neither agree nor disagree (3)	Agree (4)	Strongly agree (5)
1	I really care about the fate of this organization because of the CSR initiatives					
2	For me this is the best of all possible organizations for which to work because of its social responsibility initiatives					
3	I talk up this organization to my friends as a great organization to work for					
4	I would accept almost any type of job assignment in order to keep working for this organization					
5	I find that my values to help others and the society as a whole and the organization's values are very similar.					
6	I am proud to tell others that I am part of this airline firm due to their CSR activities					
7	I am extremely glad that I chose this airline firm to work for over others I was considering at the time I joined					

9. How does CSR contribute to the profitability of airline firms

.....  
 .....

10. What is your perception of your firms CSR performance compared to others in the industry

.....  
 .....

11. Is your contribution to your firm influenced by how responsible or irresponsible they are?  
Please explain

.....  
.....

12. How does CSR foster your attitude to performance in airline firms?

.....  
.....



**APPENDIX 3: QUESTIONNAIRE FOR MANAGERS**

Dear Sir/Madam,

I am a PhD candidate at the Tomas Bata University in Zlin, Czech Republic and I am conducting a research on the topic **Corporate Social Responsibility as an intangible asset in the Airline Industry in Central and Eastern Europe**. I would appreciate it if you could please complete this survey questions for me. The questions will take about 15-20 minutes to complete. I am aware that you are busy, but the time you will take to complete this questionnaire will be valuable to this important research. You are assured that, the questionnaire is for academic purposes only and your responses will be completely confidential. Thank you for your willingness to participate.

Sincerely

Roman Asatryan  
Faculty of Management and Economics  
Tomas Bata University in Zlín  
Czech Republic  
Email: romankempo2002@yahoo.com

*(In answering the questions, close approximations will be very much appreciated)*

**Demographic background** *(please tick what is applicable)*

- 9. Sex:      a. Female      b. Male
  
- 10. Age:      a. 11-20      b. 21-30      c. 31-40      d. 41-50      e. 51-60
  
- 11. Position in your organization

.....

**General information**

- 1. **What is your understanding of Corporate Social Responsibility (CSR) and responsible business practices? What activities do they include?** *(Please briefly list them with a brief description in the box below)*  
.....  
.....
  
- 2. Which of the below definitions describes CSR best in your opinion? *(You may choose maximum 2 of the options provided below)*. Check at most 2 answers
  - s. CSR is a set of philanthropic activities a company carries out voluntarily on a sporadic basis in the local community
  - t. CSR is the commitment of a company to strictly abide to national labour and environmental laws
  - u. CSR is about promoting corporate fairness, transparency and accountability through a set of internal rules or processes by which businesses are operated, regulated and controlled

- v. CSR is a collection of occasional philanthropic practices, gestures or initiatives motivated by public relations or marketing consideration
- w. CSR is a comprehensive set of policies, practices and programs that are strategically integrated throughout business operations and decision-making processes to minimize the negative impact on the company's social and natural environment
- x. CSR is a formal process of relationship management through which companies engage with their stakeholders to align their mutual interests
- y. CSR is a concept aimed at achieving commercial success in a way that does not compromise the well being of its employees or the local community
- z. CSR describes a decision-making process based on ethical values and compliance with legal requirements
- aa. CSR describes the way in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (including shareholders, employees, customers, business partners, governments and communities)

3. How does your organization develop its CSR strategies/plans to stay competitive?

.....  
 .....

4. In your opinion, what impact does CSR have on the following issues?

Please indicate evaluate the following with the answers indicated huge positive impact (1) negative impact (2) no impact (3) no answer (4)		positive impact (1)	negative impact (2)	No impact (4)	No answer (5)
	<b>Finances and operations</b>				
1	Operational cost				
2	Productivity				
3	Sales and revenue				
4	Revenue				
	<b>Marketing</b>				
1	Customer satisfaction				
2	Quality				
3	Reputation of the firm				
4	Market share				
5	Market access				
6	Brand awareness				
7	Competitiveness				
	<b>Employee satisfaction</b>				
1	Absenteeism rate				
2	Employee turnover				
3	Employee commitment				
4	Value added per employee				

	<b>Regulators</b>				
<b>1</b>	Society and community				
<b>2</b>	Government agencies				
<b>3</b>	Investor relations				
<b>4</b>	Media				
<b>5</b>	Credit and lending arrangements				

5. In your opinion, what is the benefit of CSR as an intangible asset in the Airline Industry?

.....  
 .....

6. What influences the development of CSR strategies in your company?

.....  
 .....

7. In what form does the implementation of CSR activities in your company take?

.....  
 .....

8. Has the CSR investment had any effect on the financial performance of airline firms?

a. Yes

b. No

Please explain your answer?

.....  
 .....

9. How does CSR affect the corporate reputation of your firm in terms of how customers will perceive the CSR initiative?

.....  
 .....

10. How does CSR affect the corporate reputation of your firm in terms of how employees will perceive the CSR initiative?

.....  
 .....

11. How does CSR affect the corporate reputation of your firm in terms of how regulators in the airline industry will perceive the CSR initiative?

.....  
 .....